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Access to Insurance in Mozambique

Ministério de Administração Estatal (MAE)/ Direcção Nacional de Promoção do Desenvolvimento Rural (DNPDR)

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Making Finance Work for Africa

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Table of Contents

List of Tables

Table of Figures

List of Boxes

Abbreviations

A2ii	Access to Insurance Initiative
ABC	Brazilian Agency for Cooperation
AMOMIF	Microfinance Operators Association *Associação Moçambicana de Operadores de Microfinanças*
AMS	Mozambican Association of Insurers *Associação Moçambicana de Seguradoras*
AP	Action Plan
ASCA	Accumulative Savings and Credit Association
ATM	Automated Teller Machines
BCM	Banco Commercial de Mozambique
BM	Bank of Mozambique
BM	*Banco de Mocambique*
BIM	*Banco Internacional de Mozambique*
BNI	*Banco Nacional de Investimento*
BOM	Banco Oportunidade de Moçambique
BPD	*Banco Popular de Desenvolmimento*
BIFSMO	Building an Inclusive Financial Sector in Mozambique
CCPs	Credit and Savings Cooperatives
CPI	Consumer Price Index
DNPDR	National Directorate for the Promotion of Rural Development *Direcção Nacional de Promoção do Desenvolvimento Rural*
FPC	Permanent Lending Facility *Facilidade de Cedência*
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GAPI	Gabinete de Consultoria e Apoloà Pequena Indústria
IAIS	International Association of Insurance Supervisors.
ICB	International Commercial Bank
IFC	International Financial Corporation.
INAS	National Institute for Social Action
INSS	National Social Security Institute
ISSM	Mozambique Institution for Insurance Supervision
MFI	Microfinance Institution
MFW4A	Making Finance Work for Africa
MIN	Microinsurance Network
MIMAS	Ministry of Women and Social Welfare
MIS	Management Information Systems
MI-SC	Microinsurance Steering Committee
MPS	Ministry of Welfare
NGO	Non-governmental Organisation
PARPA	Action Plan for the Reduction of Absolute Poverty
PSA	Program de Subsidio de Aliments
ROSCA	Rotating Savings and Credit Association
SME	Small and Medium Enterprises
SISSMO	Social Security Information System of Mozambique
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme

1. Introduction

Rationale for the study. *Direcção Nacional de Promoção do Desenvolvimento Rural* ("DNPDR"), UNCDF, UNDP, GIZ ProEcon, Mozambique ("GIZ"), MFW4A and FinMark Trust commissioned this study to map the landscape of insurance and more specifically microinsurance in Mozambique. The objective of this analysis is to conclude on the potential for microinsurance development in Mozambique and to make policy and regulatory recommendations.

Methodology. This study largely uses the methodology outlined in the Access to Insurance Initiative's (A2ii) Toolkit I, II and IV (in draft) [1]:

- *Toolkit I: Microinsurance country diagnostic studies - analytical framework and methodology* sets out the Initiative's analytical framework and methodology for market and regulatory diagnostic studies.
- *Toolkit II: Country Process Guidelines for Microinsurance Market Development* provides recommendations on the broader microinsurance development process to follow in a country, into which the diagnostic study (Toolkit I) feeds.
- *Toolkit IV (title still subject to change)*: *Country-level microinsurance development process: operationalizing the action plan* synthesises lessons across countries on how to act on/respond to diagnostic recommendations.

Data usage. The FinScope Mozambique 2009[2] Consumer survey (henceforth referred to as FinScope Mozambique) data was analysed to provide insights concerning insurance usage and features of the low-income and currently uninsured market. This analysis also provided additional insights concerning opportunities within the market which could serve as possible entry points for insurers into a wider market.

Secondary data usage. Whilst we have used FinScope Mozambique data in certain sections of this document including the context and supply side components, we have also used various sources of secondary data.

Focus group discussions. Focus group discussions were commissioned[3] for this study to provide insights concerning the low-income market's experience of risk, as well as their perceptions of and demand for insurance products. In addition, focus group discussions also test the low-income market's usage of alternative risk coping mechanisms and informal financial services.

[1] Toolkit III, aimed at insurance supervisors, will be developed for supervisory self-assessment of compliance with the IAIS Insurance Core Principles, based on the IAIS Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets (in draft).

[2] FinScope consumer survey, a FinMark Trust initiative, is a nationally representative study of consumers' perceptions of financial services and issues, which creates insight into how consumers source their income and manage their financial lives. The sample covers the entire adult population, rich and poor, urban and rural, in order to create a segmentation, or continuum, of the entire market and to lend perspective to the various market segments.

[3] For more detailed information on the FGDs findings please consult ICC's (International Capital Corporation) full focus group discussion report.

Box 1. Guide to reading this document

This document presents a comprehensive analysis of the opportunities for and challenges to extending access to insurance (and particularly microinsurance) in Mozambique. The document is targeted at multiple audiences and not all sections may be of interest to all readers. While we encourage all readers to consider the complete picture presented in this document, we have structured it to allow readers to easily identify and focus on sections of interest.

In-paragraph italicised headings allow readers to skim read through sections of less interest and still pick up the main findings and conclusions.

Abbreviations:
c. – "circa"
m. – "million"
Structure of the analysis.

The report is structured as follows:

Section 2 provides a definition of microinsurance.

Section 3 provides an overview of the macroeconomic and socioeconomic context in Mozambique.

Section 4 provides a comprehensive overview of the regulatory framework pertaining to the insurance market in Mozambique.

Section 5 outlines the insurance market in Mozambique from a supply perspective.

Section 6 details the demand-side analysis with particular focus on the target market's experience of risks, the coping strategies they employ and the role that insurance does and can play in risk mitigation.

Section 7 discusses various distribution opportunities for developing the microinsurance sector.

Section 8 concludes on the potential for microinsurance in Mozambique.

2. What is microinsurance?

Microinsurance is defined by the International Association of Insurance Supervisors ("IAIS") and Microinsurance Network ("MIN") Joint Working Group on Microinsurance (2007)[4] as "insurance accessed by the low-income market".

Microinsurance is, in the first instance, insurance, meaning that it is provided according to generally accepted insurance practices and is not social welfare or social security, but a complementary market solution. As such, it needs to be viable for insurance companies and must be funded by premiums.

[4] For the IAIS definition of microinsurance, see Appendix A - IAIS-MIN JWGMI (formerly known as IAIS-CGAP JWGMI), 2007, Issues Paper - Issues in the Regulation and Supervision of Microinsurance. Available at: www.iaisweb.org. See Annex 4 of this Issues paper for a more detailed overview.

In the case of Mozambique, as in many other developing countries, the majority of the population will fall within the low-income definition[5] so that microinsurance is a core rather than peripheral issue.

For microinsurance to be accessed by the low-income market, the products and processes need to be tailored to the needs and income levels of that population. This must be supported by innovations in distribution to cost-effectively reach masses of people that may not be formally employed or have a bank account.

Given this, the insurance market must expand beyond the currently very limited reach of the upper class and formally employed market, to the middle market and, eventually, to the poor[6]. The future growth of the insurance industry may be largely driven by microinsurance which will, in many ways, be the catalyst for the overall development of the industry.

3. Context

The microinsurance sector exists within a dynamic socio-economic and financial sector environment.

3.1. Macro- and socio-economic context

Economic indicators

Population largely young, poor and rural. Mozambique is a low-income country (as defined by the World Bank) with a population of approximately 23 million people. Table 1 below, shows a breakdown of the population according to residence in urban or rural areas and those earning USD $1, USD $1.25 and USD $2 per day.

	Population (%)
Living in rural areas	62
Living in urban areas	38
Living below 15 years of age	48
Living below USD$ 1.25 a day	54
Living below USD$ 2 a day	81

Table 1. Population breakdown

Source: World Bank, 2010

- 52% of the country's poor live in the provinces of Cabo Delgado, Niassa, Nampula and Zambezia.[7]

[5] Please see Section 4.3.2 for the definition of the low-income market as per the Mozambican Insurance Act.
[6] It also recognises that some part of the population will be simply too poor to afford insurance premiums and will remain the social protection responsibility of the state.
[7] http://www.audiencescapes.org/mozambique-provincial-radio-maputo-radio-mocambique-community-UNESCO-media-project-north-refugees-nampula-niassa-cabo-delgado.

- Sources within the private sector estimate that only 550,000 people within the country earn salaries and wages above the minimum wage, approximately 5% of the labour force.[8]
- Income share held by the highest decile of the earning population amounts to approximately 39%.[9]

Country's political and economic history sets the scene for the current macro and socio economic context. Mozambique obtained independence from Portugal in 1975. The Marxist-Leninist Front for the Liberation of Mozambique (FRELIMO) came into power and set out to transform the economy through the implementation of nationalist economic policies. In line with this, the government went on to adopt 'state-centred' economic policies embracing nationalisation of the private sector, land and other resources. Companies within different industries in the private sector were merged into single state owned entities or conglomerates.

Post-war policy interventions lead to robust growth. Mozambique experienced a civil war from 1977 to 1992. The war led to the destruction of basic infrastructure including, schools, hospitals, roads and other transportation networks. The Mozambican economy has experienced considerable post-war growth since 1992 at an average rate of 8% per annum with income per capita rising by 5% annually from 2005 to 2009[10]. This is due to significant foreign direct investment (FDI) (an increase of 109% in 2009 and 66.3% in 2010 largely attributed to large projects and coal mining in the Tete province),[11] substantial donor support and economic reforms[12]. The government moved from previous socialist policies to those that promoted the liberalisation of the country's markets, laying the foundation for economic growth.

Significant improvement in base-line socio-economic indicators. When comparing socio-economic indicators from the end of the war in 1992, to 2006, 2008 and 2010 (as shown in Table 2. Mozambique country indicators for 1992, 2006, 2008 and 2010below), it is evident that the country's overall social and economic conditions are improving. Table 2 below shows that over the years the country's GDP per capita has almost tripled, inflation rates have dropped significantly and the country's external debt as a percentage of GDP has decreased. In addition, the country's net primary school enrolment has increased (from 89% in 2008 to 96.5% in 2010), the under-five mortality rate has declined and the poverty incidence has declined from 80% to 55%.

[8] Barclays Bank, 2011.
[9] World Bank, 2010. Mozambique Country Profile data. Available at: http://data.worldbank.org/country/mozambique. [Accessed August 2011].
[10] Republic of Mozambique: Poverty Reduction Strategy Paper – IMF Country Report, June 2011
[11] African Economic Outlook, 2011. 'African Economic Outlook Mozambique'. Available at: http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/Country_Notes/2011/Short/En-Mozambique_short.pdf. [Accessed January 2012].
[12] Rabobank Mozambique Country Report. http://overons.rabobank.com/content/images/Mozambique-201011_tcm64-82342.pdf.

Country indictors	1992	2006	2008	2010
GDP per capita USD $	150	310	370	410
Inflation (%)	39	9.7	10.3	12.7
Government debt (% of GDP)	286	81	41.9	32
Poverty incidence (%)	80	54	54	55
Net primary school enrollment (%)	43	71	89	96.5
Under-five infant mortality rate (per 1,000)	209	154	144	135
Population (millions)	16.5	20.1	21.4	23.4

Table 2. Mozambique country indicators for 1992, 2006, 2008 and 2010

Source: IDA, 2009; World Bank Development Indicators, African Economic Outlook, 2011; Trading Economics 2012a and Trading Economics 2012b.

The increase in inflation in recent years surpassing the central bank's target of 8% has seen a corresponding increase in headline consumer price index from 3.3% in 2009 to 12.7% in 2010, a result of the increases in international oil and food prices, and the decline of the local currency against the South African Rand.[13]

Agricultural sector still plays a key (and growing) role in the economy. As seen in Figure 1 below, agriculture plays a key role in the economy and has been growing as a percentage of GDP. It is estimated that the agricultural sector employs or 'occupies' 80% of the labour force with industry employing 4% and services 16%.[14]

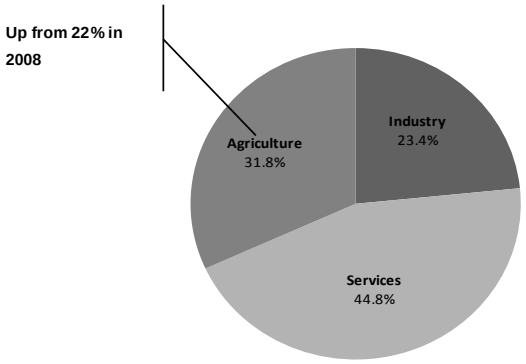

Figure 1. Contribution to GDP by industry

Source: World Bank, 2010

Large FDI flows in mining projects and mega projects have led to job creation. The mining sector has experienced large inflows of FDI and is estimated to be the second largest source

[13] Mozambique imports a large portion of food to meet the country's demand. It can then be assumed that increases in international food prices have a direct correlation with inflation levels in the country.
[14] World Bank, 2010. Mozambique Country Profile data. Available at: http://data.worldbank.org/country/mozambique. [Accessed August 2011].

of economic growth in 2012.[15] Projects such as the Moatize-Beira railway[16] and the Nacala deep-sea port have generated investment in the country's infrastructure. Demand for medium to high skills in the telecommunications, metal and gas industries has also increased. It is estimated that large projects have created between 10,000 and 20,000 jobs.[17]

Economic activity concentrated in Maputo and Southern provinces. The capital city Maputo, located in the Southern part of the country, accounts for approximately 34% of the country's overall GDP but only 6% of the population. There are however signs of rapid development in other areas of the country such as Tete which will reduce the concentration of economic activity in the future.

Mozambique shares close ties to South Africa. South Africa is one of Mozambique's most significant trading partners and in 2009 35% of Mozambique's imports were from South Africa[18] while South Africa was the second largest importer of Mozambican exports. Additionally, there are approximately 200,000 Mozambican migrant workers in South Africa, primarily in the agricultural and mining sectors[19] with remittances from these migrant workers representing an estimated 1% of the country's GDP.[20]

Labour

Sector specific minimum wages reviewed annually. Minimum wages in Mozambique are reviewed on an annual basis by a tripartite commission comprised of the government of Mozambique, the Consultative Commission on Employment[21] and the Confederation of Business Associations in Mozambique[22]. As of 2011[23] there were 13 different minimum wages across various sectors ranging from USD $54 for agriculture to USD $173 for financials.[24]

Positive trends in real minimum wages. Table 3 below shows the growth in minimum wages across various sectors between the years 2008 and 2011. When correcting for inflation, real wage growth can be seen in all years from 2008 through to 2011 for the mining, agricultural and financial sectors.[25]

[15] African Economic Outlook, 2011. 'African Economic Outlook Mozambique'. Available at: http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/Country_Notes/2011/Short/En-Mozambique_short.pdf. [Accessed January 2012].
[16] Moatize-Beira railway between Tete province and the port of Beira. The 670km railway line runs between Tete and the port of Beira and it was estimated to be operational by the end of 2011.
[17] OECD, 2011. 'AID at a Glance – Mozambique'. Available at: http://www.oecd.org/dataoecd/4/30/48324401.pdf. [Accessed October 2011].
[18] OECD, 2011. 'AID at a Glance – Mozambique'. Available at: http://www.oecd.org/dataoecd/4/30/48324401.pdf. [Accessed October 2011].
[19] Barclays Bank, 2011.
[20] Overseas Development Institute (ODI), 2010a. 'Sector Budget Support in Practice – Case Study: Health Sector in Mozambique'. Available at: http://www.odi.org.uk/resources/docs/6405.pdf. [Accessed December 2011].
[21] Wage Indicator, 2012. 'Minimum Wages FAQs in Mozambique'. Available at: http://www.wageindicator.org/main/minimum-wages/mozambique/minimum-wages-in-mozambique. [Accessed January 2012].
[22] Representing employers across the various sectors
[23] In 2000, a separate agricultural sector minimum wage was introduced. In 2000 – 2007 there were agricultural and non-agricultural wages. In 2008, there were 11 minimum wages introduced with this being extended to 13 in 2011 (Hanlon, 2011).
[24] Hanlon, J., 2011. 'Mozambique 182 – News reports and clippings July 2011'. Available at: http://www.open.ac.uk/technology/mozambique/pics/d130990.pdf. [Accessed August 2011].
[25] While there are 13 different types of minimum wage, we chose four sectors that were considered most relevant for the analysis.

	2008 -2009	2009 – 2010	2010 - 2011
Agriculture	9.75%	1.20%	4.00%
Public administration and security	10.85%	-3.70%	-4.50%
Mining	8.85%	0.50%	5.90%
Financial sector	38.05%	14.20%	42.70%

Table 3. Growth in real minimum wages in the agricultural, public administration, mining and financial sectors

Source: Hanlon, 2011 and author's own calculations

Small formal sector employment dominated by small enterprises. Using various sources of data concerning the labour sector[26] we were able to define employment across various sectors in Mozambique as shown in Figure 2 below. Information used to construct the picture in Figure 2 was taken from various sources with the aim of providing a holistic picture concerning employment in Mozambique.[27]

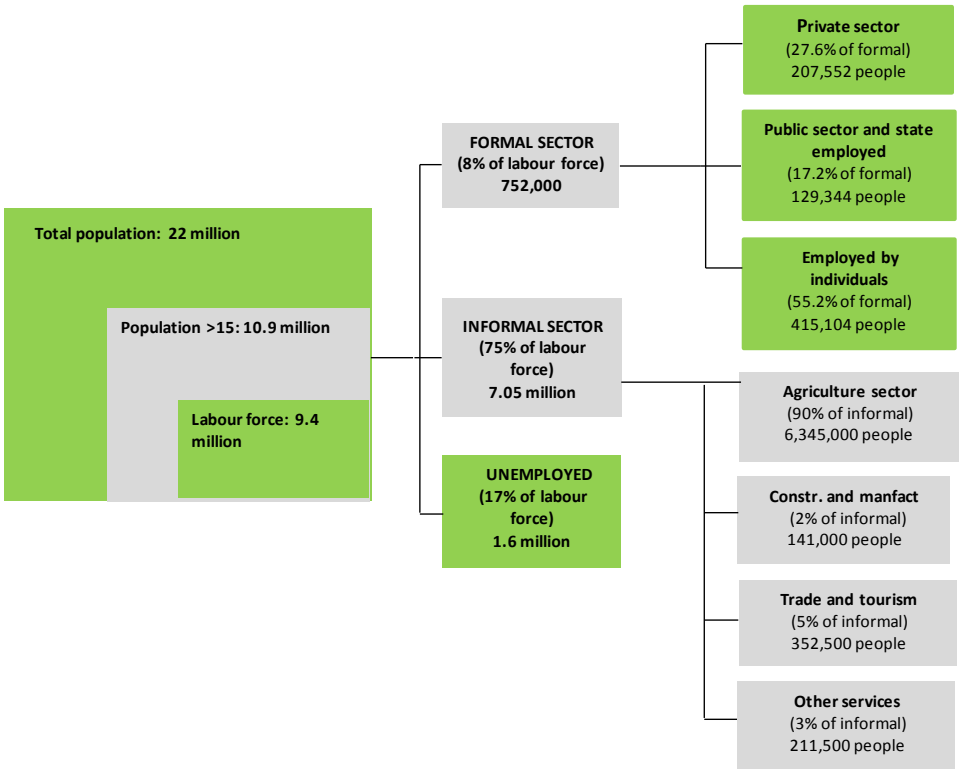

Figure 2. Mozambican employment across various sectors[28]

Source: INE, 2010 and ODI, 2010b

[26] The working age population is defined as the population above the age of 15.

[27] Further on in the document we also define formal employment according to main source of income as per the FinScope Mozambique 2009 Consumer survey. This definition differs from the one INE uses which captures formal employment according to economic sector reporting. In addition, there is a third data point concerning formal employment captured by the INSS (National Social Security Institute).

[28] Interestingly in the country's economic records, small-scale agricultural production is defined as 'household activities' which could mean potential under reporting of employment statistics within the agricultural sector (UNDP, 2010).

Low, but growing formal sector employment. Only 8% of the labour force is employed in the formal sector, with 27.6% of those who are employed in the formal sector employed in the private sector and 17.2% employed in the public sector. There is an upward trend in formal sector employment growth. The 752,000 workers shown in Figure 2 are significantly higher than the 521,207 in 2003.[29]

Social security

Severe health constraints despite improvements. Increased economic growth and support from donors has led to some improvements in socio-economic indicators, but Mozambique still suffers some of the worst health indicators on the African continent.

- *Malaria.* Malaria accounts for 24% of deaths of children under five and for 44% of all out-patient consultations[30], with pregnant women and children accounting for 75% of all malaria deaths.[31]
- *Tuberculosis.* Mozambique ranks 19th of the 22 highest-burdened tuberculosis countries.[32]
- *HIV/AIDS.* It is estimated that between 11-16% of the population is infected with HIV/AIDS (Swaziland 25%, Botswana 24.8% and Kenya 6.3%). The International Labour Organization estimates that 20% of the country's agricultural labour force could be lost to HIV/AIDS by 2020.[33]

Large government investment in provision of basic services. Under PARPA (Action Plan for the Reduction of Absolute Poverty) the government, with the support of donors, has made significant investment in the provision of basic services and in social development. Health sector spending increased from 6.3% of the state budget in 1993 to 14% in 2002 and to 17.8% in 2009.[34] In addition, public expenditure on education as a percentage of the state budget increased from 12.3% in 1998 to 21.0% in 2006.[35]

Subsidised health care. Health care is subsidised by the government and explored further in this document. Health clinics provide basic health care for a minimum fee of between MT 5 to MT 10 (USD $0.18 and USD $0.36)[36] including consultation and drugs where available.

Free health care for pregnant women and children under 5. Pregnant women and children up to the age of five and their mothers do not have to pay any consultations fees at health care facilities.

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[29] African Development Bank, 2008. 'Mozambique – Private sector country profile'. Available at: http://www.afdb.org/fileadmin/uploads/afdb/Documents/Evaluation-Reports/ADB-BD-IF-2008-228-EN-MOZAMBIQUE-PRIVATE-SECTOR-COUNTRY-PROFILE-AUGUST-2008.PDF. [Accessed January 2012].
[30] Global Fund, 2008. 'Proposal form – Round 8'. Available at: http://www.theglobalfund.org/documents/rounds/8/AttachmentC_en.xls. [Accessed November 2011].
[31] Roll Back Malaria Initiative, 2008. 'Fighting Malaria on the River of Life'. Available at: http://rbm.who.int/worldmalariaday2008/docs/zambezi_cpMozambique.pdf. [Accessed November 2011].
[32] USAID, 2010. Infectious diseases (webpage). Available at: http://www.usaid.gov/our_work/global_health/id/tuberculosis/countries/africa/mozambique_profile.html. [Accessed November 2011].
[33] USAID, 2011a. AgCLIR Mozambique. Commercial, Legal and Institutional Reform in Mozambique's Agriculture Sector for Action. Available at: aec.msu.edu/%5C/fs2/mozambique/.../AgCLIR_Report_eng_final.pdf. [Accessed November 2011].
[34] Overseas Development Institute (ODI), 2010a. 'Sector Budget Support in Practice – Case Study: Health Sector in Mozambique'. Available at: http://www.odi.org.uk/resources/docs/6405.pdf. [Accessed December 2011].
[35] World Bank Development Indicators data base ,2010.
[36] Using exchange rate provided by Oanda.com as at 14 May 2012 where MT 1 = USD$ 0.03650 http://www.oanda.com/currency/converter/

Various food and basic commodity subsidies. The government subsidises basic commodities and services targeted at the poor. When in September 2010 riots broke out after the government announced the reduction and even abolition of some of the subsidies, the government reinstated the subsidies with some adjustments. Subsidies and relief measures include:

- **Bread subsidy**: bakers receive a subsidy of approximately MT 200 (USD $5.60) for every 50kg of wheat flour purchased.
- **Urban public transport subsidy**: previously a fuel subsidy; now a direct subsidy for those who use urban public transport.
- **Reduction in price of rice**: The price of low-grade rice was reduced by 7.5%.
- **Reduced surtaxes and customs duty on imported foods:** Reduced surtax on imported sugar and reduced customs duties on vegetables imported from South Africa.

INAS cash transfer programme. The *Progama de Subsídio de Alimentos* (PSA) is a cash transfer programme for food subsidies implemented by the National Institute for Social Action (INAS). It benefits the chronically ill, destitute and elderly. In 2007 the programme covered approximately 100,000 individuals 90% of which were elderly.[37] According to recent estimates the programme now covers 280,000 people.[38]

Government support for natural disasters. The National Institute for Disaster Management supervises the provision of relief aid in the event of natural disasters. The provision of relief is often effected in conjunction with donors and is in the form of food and temporary shelter.

Employer and employee funded social security. The National Institute for Social Security ("INSS") supervises and administers Mozambique's social security scheme covering those who are currently employed as well as their dependents. The total contribution is 7% of wages of which 3% is paid by the employee and 4% by the employer. It is the employer's responsibility to collect contributions and hand these over to the INSS.

INSS scheme largely covers the formal sector. The INSS scheme covers those who are employed in the formal private sector[39] and in 2011 was in the process of widening its base to provide for those who are self-employed. Despite it being compulsory for all enterprises and workers, only 256,000 of the 891,000 formally employed workers were registered at the time of the study (September 2011)[40]. In addition, there are currently 35,000 companies registered with the INSS with only 15,000 actively submitting contributions to the INSS.[41]

INSS faces various administration difficulties. The INSS indicated that the reason why the majority of companies registered with it do not pay contributions is that the paper based system makes it difficult to track them. Since the end of 2011 the INSS has begun

[37] Taimo and Waterhouse, 2007. Available at: http://wahenga.org/sites/default/files/reports/REBA_Mozambique_Food_Subsidy_Programme.pdf. [Accessed August 2012]
[38] Consultation with the INSS, September 2011
[39] Public servants have their own social security scheme, administrated by the Ministry of Finance. INSS has been requested to take over this scheme, but preferred to strengthen its capacities before loading more contributors and administrative burden (interview by S Teyssier, June 2011).
[40] Please see previous footnote on differing data points concerning formal employment. This paragraph uses a data note as per the INSS's records.
[41] Consultation with the INSS, September 2011.

computerising its administration processes. It has received assistance from the Brazilian MPS (Ministry of Welfare), the INSS [Brazil][42], the Social Welfare Information and Technology Company (Dataprev) and the Brazilian Agency for Cooperation (ABC).

Box 2 **Error! Reference source not found.** below provides a summary of the various benefits offered by the INSS.

Box 2. The National Institute for Social Security (INSS) – unpacking the benefits

- **Medical allowance and hospital benefit.** If an employee has worked for at least 20 days in the previous two months and can present a medical certificate to his/her employer and the INSS, the INSS will pay a **medical allowance *(subsidio por doenca)*** for up to 30 days per annum that an employee is absent from work or 65% of his/her average salary in the previous 6 months. The INSS will also pay a **hospital benefit *(despesas de cama)*** for up to 30 days per year to cover the cost of bed occupancy in the event of a hospital stay.
- **Maternity subsidy.** The INSS offers a maternity leave subsidy where they pay the full salary for 60 days.
- **Pension and retirement**. Qualification for this benefit requires payment of contributions for a minimum of ten years. The pay-out is equal to 50% of the average salary over the last ten years, adjusted for inflation and incorporates a "contributing density coefficient"[43]. Where the contribution period is less than ten years, the beneficiary receives a reduced pension pay out[44] with a minimum of MT 1,710 (USD $62)[45] per month (or at least 60% of the highest minimum wage)[46].
- **Funeral subsidy.** In the event that an employee dies, the INSS pays out a funeral subsidy of MT 3,000 (USD $109)[47]. To qualify, an employee must have paid his/her INSS contributions for a minimum of 3 months. In addition, the INSS gives the families of the deceased the equivalent of 6 months' worth of the deceased's salary. Employees who have been registered with the INSS for at least three years and have paid contributions for at least 6 months are entitled to an additional compensation one month's worth of salary per child of the deceased.
- **'Survival' pension (*subsidio de sobrevivencia*).** This pension is paid out to the families of deceased employees. The 'survival' pension is the equivalent of the retirement pension the employee would have received. 50% of the pension is for the widow or widower while the remaining 50% is paid to the children up to 18 years of age. The qualifying age of the deceased's child is extended to 21 years if they are still in secondary school and to 25 years if they are university students.
- **Invalidity, chronic illness including HIV/AIDS.** The INSS pays employees 60% of their pension in the event that they are unable to work due to chronic illnesses such as HIV/AIDS. To qualify the employer will need to have paid contributions to the INSS for at least ten years.

[42] Author's own insertion
[43] This is equal to the total contributed months divided by 240 (20 years).
[44] This is 60% of the amount they would have received if they had paid contributions to the INSS for 10 years.
[45] Using exchange rate provided by Oanda.com as at 14 May 2012 where MT 1 = US$ 0.03650 http://www.oanda.com/currency/converter/.
[46] It is interesting to note that the retirement age in Mozambique is 55 for women, 60 for men.
[47] Using exchange rate provided by Oanda.com as at 14 May 2012 where MT 1 = US$ 0.03650 http://www.oanda.com/currency/converter/

4. Regulatory Analysis

In this section we provide an overview of the regulatory environment that governs the delivery of insurance (and microinsurance) in Mozambique and consider the impact that it may have on developing access to insurance in the country.

4.1. Financial Inclusion Policy Landscape

Policy commitment to financial inclusion. The Government of Mozambique and the Bank of Mozambique or central bank ("BM") have made financial inclusion a priority. The BM has made it a strategic objective to expand the geographic reach of the regulated financial sector[48] and the Government has mandated the *DNPDR* (The National Directorate for Promoting Rural Development)[49] to promote rural financial development. The DNPDR has been working with the UNCDF and the UNDP in building an inclusive financial sector in Mozambique, principally through a National Microfinance Strategy. The policy has resulted, amongst others, in the promulgation of a regulatory framework for microfinance.

Strong policy statement supports financial inclusion. The Government's commitment to financial inclusion is evidenced by the public statement of Manuel Chang, the Minister of Finance. He suggested that the Government is aware of the importance of the financial sector as an engine to stimulate growth and socio-economic development. He further proposes that "the extension in the supply of credit and other financial services to the vast majority of those that are underprivileged is one of the challenges which must be faced and addressed by the Government and other economic agents".[50]

Limiting factors to the development of financial services. Despite significant reforms during the past ten years, there are still prevalent limiting factors for the development and expansion of the formal financial services sector, including the shortage of infrastructure, transport and communications, water supply and energy as well as flexible legal instruments and human capacity. This particularly affects the people living in rural and peri-urban areas from an access perspective.

Flexible policy approach to insurance. Due to the unpredictable course that market development will take, the Government is committed to remaining flexible and adjusting the regulatory framework to changing circumstances.[51]

4.2. Insurance Act (including microinsurance)

A new Insurance Act and regulations. Insurance operations and pension funds in Mozambique are governed by *Decreto-Lei No. 1/2010, 31 Dezembro de 2010* (henceforth referred to as the **Insurance Act**) replacing Lei nr. 3/2003 (Insurance Act of 21 January 2003), and regulated by *Decreto No. 30/2011, 11 Agosto 2011* (henceforth referred to as **regulations**). The Insurance Act came into force on 1 April 2011, four months after it had

[48] Relatorio Anual do Banco de Mocambique (2010). Available at: http://www.bancomoc.mz/Files/CDI/RA_2010pt.pdf
[49] The DNPDR is part of the *Ministério da Planificação e Desenvolvimento* (Ministry of Planning and Development).
[50] Seminar on Financial Sector Strategy, 17 February 2011. Available at: http://www.portaldogoverno.gov.mz/noticias/news_folder_econom_neg/fevereiro-2011/apesar-das-reformas-persistem-limitacoes-para-desenvolvimento-do-sector-financeiro/
[51] Consultation with the ISSM, Maputo, 13 September 2011.

been approved. The regulations were designed to regulate the Insurance Act and provide further details and additions which were previously not in the Act.

Insurance Act replaces a regulatory void. Before the promulgation of the Insurance Act, insurance contracts were regulated by the Commercial Code of 1888. The Commercial Code of 1888 was repealed in 2005 and replaced by the *Decreto-Lei No.2/2005* (27 December) with a new Commercial Code with no legislation specifically covering insurance contracts except for aspects related to cooperative societies and shipping contracts. The result was an inappropriate regulatory framework for insurance between 2005 and 2010 as this aspect of the law was not covered under the Insurance Act of 2003.

The main changes compared to Law No. 3/2003 are examined in Box 3 below.

Box 3. Main differences between current Insurance Act and previous insurance law

Some of the new material in the Act is detailed further in this section. The main changes include the following:

a. A legal framework for microinsurance as a new business segment in the insurance sector to include life and non-life businesses and conducted by both by microinsurers and insurers, in compliance with the requirements (Article 45(3)).

The possibility to market microinsurance products by entities other than traditional insurance intermediaries, observing, for this purpose, the relevant requirements (Article 57, (2-6)).

Updating the minimum capital requirements for entities authorised to carry out insurance business, for microinsurance, insurance brokerage and reinsurance (Article 15).

Making the intermediation of reinsurance operations the domain of specific brokerage, fixing the minimum capital requirements at MT 600,000 (Article 60, (4b).

Health and assistance insurance are new with reduced capital requirements.

New Act introduces information on brokering reinsurance.

4.2.1. Microinsurance integral to new Insurance Act

Microinsurance included in new Insurance Act. In pursuit of its financial inclusion objectives, the Government has chosen to incorporate microinsurance in the Insurance Act. Microinsurance can be underwritten by all authorised insurers and is described as "an integral part of the insurance activity in this country [Mozambique]" [52] (article 42(1), Insurance Act). Consultation with the ISSM has suggested that the supervisory entity is enthusiastic about the scope for microinsurance and it has expressed a willingness to make appropriate adjustments to the legislation in support of developing markets and providing value to clients.

4.2.2. Instituto de Supervisao de Seguros de Moçambique (ISSM)

ISSM as regulator and supervisor. The Insurance Act establishes the *Instituto de Supervisao de Seguros de Mocambique* ("ISSM") as an independent supervisory authority which replaces the *Inspeccao Geral de Seguros* (IGS), a division created in 1999 within the Ministry of Finance by *Decreto no.42/99*.

No explicit mention of development in ISSM mandate. The Insurance Act establishes the mandate of the ISSM to be the following:

- The supervision and inspection of entities equipped for the pursuit of insurance activities, insurance intermediation and reinsurance as well as the management of supplementary pension funds (Article 5(2) – *Conselho de Ministros*); and
- The supervision and subsidiary inspection of the execution of mandatory social assistance directed by the INSS and the Workers Pension Fund of the BM (Article 5(2) – *Conselho de Ministros*).

Non-membership of IAIS. Mozambique is neither a member of nor an observer to the IAIS and the ISSM was established to ensure compliance with international standards and move Mozambique closer to membership. The ISSM is however a participant in the IAIS/MIN Joint Working Group on Microinsurance which is an open forum for supervisors and other interested parties in microinsurance.

The ISSM's capacity. By September 2011 the ISSM had 21 employees. There are four lawyers, including the insurance inspector general, two economists, two managers, and two accountants. There are currently no actuaries.

4.3. Insurance Products

This section considers the most relevant regulatory provisions that apply to insurance products in Mozambique.[53]

4.3.1. Definitions of insurance and microinsurance

Insurance activity is defined as "the regular exercise of activities relating to the acceptance and fulfilment of contracts of insurance, reinsurance, and microinsurance operations, as well as related and complementary activities and contracts, namely those relating to salvage, reconstruction and the repair of buildings and vehicles, the maintenance of health clinics, and requiring the application of provisions, reserves and capital" (definition 2, Insurance Act). The potential wider scope of the insurance sector in being permitted to engage in such activity that lies outside of underwriting insurance reflects the reality of the country, which still faces infrastructural constraints and damage following previous decades of civil war.

The Insurance Act defines **insurance** as "a good or benefit resulting from an agreement by virtue of which one party (the insurer) is obliged to provide another (the insured) with a payment or remuneration or any other provision, in the case of destruction or harm, or damage to a specific person or thing in which the other possesses an interest" (definition 48,

[53] Product policies must be communicated to the ISSM with a "file and use" protocol (article 87(1)).

Insurance Act). Further, the Insurance Act makes it clear that risk is the main element of an insurance contract and that it must be "random, real and legitimate" (article 108).

The Insurance Act defines **microinsurance** as an ''activity consisting of the taking on of risk, principally in operations of **reduced and medium dimension** aimed at the protection of **low-income populations** against **specific risks**, in exchange for regular payments of premiums, proportionate to the probability and cost of the risk involved'' (definition 25, Insurance Act).

Microinsurance definition in line with IAIS' approach. This definition of microinsurance is in line with the IAIS (2007) definition outlined in "Issues in the regulation of and supervision of microinsurance"[54], where microinsurance is defined as "insurance that is accessed by [or accessible to][55] the low-income population, provided by a variety of different entities, but run in accordance with generally accepted insurance practices (which should include the IAIS Insurance Core Principles). Importantly, this means that the risk insured under a microinsurance policy is managed based on insurance principles and funded by premiums" (IAIS, 2007).

Definition allows wider scope for inclusive insurance. The **reduced and medium dimension** aspect of the definition can be interpreted as the Government aiming to achieve as high a limit as possible for microinsurance. In line with the IAIS position, the definition encompasses *access to insurance* and not just low value policies. This position has implications for the benefit limits that need to be defined by the ISSM.

Delineating definition in terms of risk. This is in line with the proposals under the forthcoming IAIS Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets, an earlier draft of which stated that "[delineating] the client group in monetary terms might be of little benefit for insurers" and that "quantitative elements of definitions should be struck at the highest possible level to ensure an inclusive approach"[56]. Further, the **specific risks** in terms of the Act have to be promulgated, the matter of which is discussed further on.

Low-income definition captures a high proportion of the population. The Insurance Act defines **low-income** as "a group of people whose income per capita does not exceed the national minimum wage[57] or those that reside in rural areas with a high rate of poverty" (definition 32, Insurance Act). At least half of the Mozambican population falls within the regulatory definition of microinsurance and are most likely the majority of potential retail microinsurance clients.

4.3.2. Demarcation between life and non-life products

The Insurance Act adopts the standard distinction between life and non-life products. It describes life products as "insurance of people" - where risk is associated with human life, being derived from the claim of injury, illness or death of the insured, the insurer paying the

[54] IAIS (2007), Available at: http://www.iaisweb.org/__temp/Issues_Paper_in_regulation_and_supervsion_of_microinsurance__June_2007.pdf
[55] Author's own insertion.
[56] Unpublished draft Guidance Paper, 2 September 2011 Draft, p.15.
[57] The national minimum wage in Mozambique is divided by sector. The latest minimum wage information announced by the Government in April 2011 set the wage at between USD $65.5 and USD $173.9 per month. *Agencia de Informacao de Mocambique*, 27 April 2011. Available at: http://allafrica.com/stories/201104271119.html

benefits agreed or a contractually stipulated indemnity - and indemnity insurance as cover[58] for damage to property which is compensated in accordance with and within the limits agreed in the contract of insurance (article 81(1)).

Itemising life and non-life categories. The regulations itemise what is considered life and non-life and follow the standard international classifications. For example, health insurance is classified as non-life and encompasses both fixed benefit and health indemnity cover (article 84(1) annex, regulations).

4.3.3. Microinsurance products

The regulation of products within the microinsurance regime includes the following provisions:

- Article 84, regulations - All authorised insurers are allowed to underwrite for both life and non-life insurance (composite underwriting).
- Article 52(7) - The Minister of Finance, based on a proposal from the ISSM, can alter the product definitions.
- Article 84(3), regulations[59] - Product lines can be underwritten individually or aggregated into policies covering various insurance lines, including life insurance.

The ISSM is aware of its need to define products appropriately and is still considering what the appropriate benefit caps should be for microinsurance products, mandated to do so within article 52(3). The regulations include the following product definitions within the microinsurance regime:

- Life, limited to guaranteeing a loan as granted under the legislation regulating microfinance [credit-life][60]
- Funeral insurance, limited to the expenses incurred for the funeral of the insured person
- Health, limited to the costs of hospitalisation
- Personal accident
- Fire of mobile and/or immobile goods
- Agriculture
- Livestock

Life insurance limited to credit life. The definition of life insurance in the microinsurance space is potentially narrow and is limited to credit-life. This may incentivise credit life products that offer more value to the credit provider rather than the client.

Funeral microinsurance definition limited to expenses of funeral. The funeral definition limits the benefit to the cost of a funeral and it is not clear whether the policyholder has a right to a monetary benefit as an alternative to an in-kind benefit. Limiting the definition to funeral expenses and benefits in-kind may undermine the role that funeral insurance can play in developing the life insurance market.

Health definition could be too focused on hospital care. The definition of health insurance appears to be too open and too restrictive at the same time. The definition allows for the

[58] Author's own insertion.
[59] Specific product definitions are discussed further here.
[60] Author's own insertion.

provision of cover indemnifying health expenses (referred to as medical aid). These types of policies are complex to administer and insurers operating in the microinsurance space may not have the necessary capacity to do so. Additionally, limiting the benefits to the cost of hospitalisation may be too restrictive given the limited hospital infrastructure in Mozambique, and it can be expected that much of the health care needs will be delivered through infrastructure other than hospitals, such as health clinics.

Health insurance may encounter an infrastructural burden as regards to microinsurance. Health insurance policies are required to list the types of illnesses that are excluded from cover and require a skilled medical professional to provide an explanation to the policyholders. This has the potential to drive up costs for medical insurance and would perhaps benefit from being adapted under a microinsurance regime, particularly with a view to expanding health services in rural and peri-urban areas.

Health insurance regulation in its infant stage. There is at present limited reference to health insurance within the Insurance Act and the regulations. Consultation with the ISSM suggested that this reflects the nascent private healthcare sector in Mozambique.

4.4. Insurance provision

Here we examine who can underwrite insurance in Mozambique and under what conditions.

4.4.1. Permissible legal forms

The Insurance Act permits the following legal forms:

- In the mainstream insurance space, an insurance provider can either be set up as a *sociedade anonima* (public company)[61] or as a mutual (article 13(1)).[62]
- Reinsurers can only be formed as public companies (article 13(2)).
- Mutuals are formed as cooperative societies (article 13(1)).[63]
- Microinsurers can be set up as public companies or as mutual societies (article 44(1)). Further, a microinsurer should make it clear in its company name or denomination that it is dedicated to carrying out microinsurance (article 44(2)).

4.4.2. Authorisation of Insurers

Insurers and microinsurers need to be authorised by the ISSM. In order to gain authorisation for underwriting insurance, mainstream insurers, reinsurers and microinsurers must obtain authorisation from the Minister of Finance, upon the advice of the ISSM (article 4(1), and 44(1) and 4(3) for microinsurers).

Requirements include fulfilling the capital requirements (detailed further on) and permissible legal forms of companies (article 17(1)).

The granting of authorisation of any type of insurer will also be dependent upon the central administration of the insurer or reinsurer being in Mozambique (article 17(2)).

[61] Further references to the Portuguese term *sociedade anonima* will henceforth be written as public company.
[62] Forming a public company requires reference to the Commercial Code and other applicable legislation (article 13(1)).
[63] The other applicable legislation in this instance is the Cooperative Law (described further on).

The Insurance Act also details the prohibited activities of those entities that are not authorised. Such entities cannot underwrite insurance, reinsurance and microinsurance (article 7(1)).

4.4.3. Permissible activities for insurers

New licences separate life and non-life but existing composites may remain. Mainstream insurers that already have composite licences can carry on underwriting both life and non-life insurance if: (1) they adhere to the increased capital requirements (as detailed further on); (2) maintain separate accounts and management (3); and maintain an adequate solvency margin (articles 14(1) and 6(2)). Mainstream insurers may also accept reinsurance contracts and conduct reinsurance business themselves for other authorised insurers or reinsurers even if those insurers or reinsurers are not established or represented in Mozambique (article 14(2)).

Mutual insurance allowed. There are reduced minimum capital requirements for mutual mainstream insurers and mutual microinsurers to underwrite insurance for their members. However, if a mutual wants to underwrite beyond its membership, it has to comply with the same capital requirements as for public companies (articles 20(2) and 51(2)). This provides the mechanism for mutuals to expand the provision of insurance beyond their membership base.

Microinsurance limited to defined products. Microinsurers can only underwrite microinsurance policies (45(1)) that fall within the specific product categories that are defined as microinsurance shown in the regulations (article 84, regulations). Mainstream insurers can underwrite microinsurance with prior authorisation (article 4(3)) either with a licence for life or non-life (article 52(4)). Microinsurers cannot accept reinsurance business but can have their own underwritten contracts reinsured by reinsurers, whether inside or outside of Mozambique (article 45(4)).

Microinsurers may engage in complementary activities. Mainstream insurers, microinsurers and reinsurers may also carry out related or complementary activities to insurance or reinsurance, specifically those concerning acts and contracts for salvage, reconstruction and repair of buildings, vehicle repair, maintenance of health stations (*posto de saude*) and the application of financial resources (article 14(3). While this may be appropriate given the absence of infrastructure in Mozambique, care should be taken to regulate the delivery of such services. It is interesting to note that while a hospital may not provide insurance, an insurance company may assist in financing the maintenance of a health station (*posto de saude*), thus contributing to an aspect of health service delivery.

Foreign insurers are permitted if local insurers refuse to underwrite risk. Foreign insurers may not underwrite domestic risk unless all domestic insurers have refused to underwrite that particular risk and there has been disclosure by the interested party to the ISSM within a specific timeframe (article 8(1) and (2)).

Foreign insurers are permitted under fronting rules. Alternatively, it is possible for a foreign insurer to underwrite a risk in Mozambique from outside the country, as long as that insurer

works through a domestic insurer. This is known as fronting[64]. This is only permitted when it is accepted and carried out by the respective insurer, taking into account the nature and size of the risk (article 7(3)). The nature and extent of fronting operations must be reported to the ISSM.[65] Fronting opens up interesting possibilities for innovation. It also allows foreign insurers to test a market's potential before investing further.

4.4.4. Capital and reserving requirements

Here we detail the capital requirements as outlined in the Insurance Act (please see Table 4 below for specific amounts).

Maintaining capital requirements in cash (and maintaining increased liquidity). The capital requirements of mainstream insurers and microinsurers (public companies) as well as of microinsurer mutuals are required to be kept in cash and cash equivalents (article 15(2)). Companies have 180 days in order to fulfil the capital requirements (article 15(4)). Any amendments to the capital amounts should be communicated to the ISSM (article 15(5)). If the capital amount exceeds the capital requirements, the surplus amount should be placed in the reserves (article 15(7)).

Depositing capital requirements in cash. Mainstream insurers (public companies) and microinsurers (public companies and mutuals) are required to deposit 50% of the cash in an authorised credit institution. The balance can be in other asset forms provided that the valuation of the assets is cleared with the ISSM (articles 15(2) and (46(3)).

Less onerous capital requirements for microinsurers creates a concessionary regime. Depending on the product lines that a microinsurer underwrites, the capital requirements are less onerous ranging from between 10% and 67% of the mainstream insurance capital requirements.

Concessionary requirements for mutuals if underwriting is limited to members only. In the mutual space, the members-only environment is concessionary and the non-member environment is equivalent to the public company requirements.

	Type of Insurance Line Permitted	**Minimum Capital Requirements (MT)**	**Minimum Capital Requirements (USD)[66]**
Mainstream Public companies	Non-life (single product line)	MT 15m	USD $0.57m
	Non-life (multiple product lines)	MT 33m	USD $1.25m
	Life	MT 67m	USD $2.53m
	Composite	MT 100m	USD $3.77m
	Non-life, health and assistance insurance (members only)	MT 7.5m	USD $0.28m
	Non-life, health and assistance insurance	MT 12.5m	USD $0.47m

[64] Fronting is when one insurance company simply acts as a conduit for insurance business for another insurer without actually carrying any of the risk themselves. It is usually used by a foreign company wanting to write business in a jurisdiction where they do not have a licence. They would then enter an agreement with a local company to write the business which then passes on all the risk to them. The local company is the "fronting" office.
[65] Article 5, regulations.
[66] Using an exchange rate of (1.00:26.5) for USD-MT, henceforth applied throughout the document

	Type of Insurance Line Permitted	Minimum Capital Requirements (MT)	Minimum Capital Requirements (USD)[66]
Mainstream Public companies	Non-life (single product line)	MT 15m	USD $0.57m
	Non-life (multiple product lines)	MT 33m	USD $1.25m
	Life	MT 67m	USD $2.53m
	Composite	MT 100m	USD $3.77m
Mutuals[67]	(multiple product lines) (members only)		
	Life (members only)	MT 25m	USD $0.94m
	Non-life, health and assistance insurance (non-members)	MT 15m	USD $0.57m
	Non-life, health and assistance insurance (multiple product lines) (non-members)	MT 33m	USD $1.25m
	Life (non-members)	MT 67m	USD $2.53m
Microinsurers	Life, non-life and composite as a public company	MT 10m	USD $0.38m
	Life, non-life and composite as a mutual (members only)	MT 3m	USD $0.11m
	Life, non-life and composite as a mutual (including those that are not members)	MT 10m	USD $0.38m

Table 4. Capital requirements for respective insurance regimes

Source: Articles 15(1) 46(1), 51(1), Insurance Act

Technical provisions should be tailored for microinsurance. The regulations stipulate that companies should pay attention to developing calculation methods pertinent to the specifics of microinsurance. The regulations also highlight that microinsurance is a new segment in the insurance market, directed at a low-income population (articles 35, 41, 62 and 64, regulations).

Actuary not required for microinsurance. Mainstream insurers underwriting life business are required to have at least one actuary supplied with all necessary information for pricing. The requirements to maintain an actuary do not apply to microinsurers (article 82, regulations).

Investment thresholds have been set to correct current market practices. For example, property value thresholds have been lowered in order to encourage investment in liquid assets, particularly important for the short term nature of microinsurance requiring greater levels of cash for claims (article 48(2), regulations). Microinsurers have to adhere only to investment requirements on the non-life side (article 48(4), regulations).

4.5. Intermediation

Here we examine the regulation of insurance intermediation, including microinsurance intermediation. Further, we outline the rules of conduct and commissions.

[67] Mutuals are also not allowed to use reinsurance to cover risks (article 14(3)).

Insurance intermediation is defined as a "professional activity which consists of regular exercise of market prospecting or an activity tending to the realisation of insurance contracts and operations, as well as lending assistance to these same binding contracts" (definition 23, Insurance Act).

Intermediation is addressed in the Insurance Act (under articles 59-64) and in the regulations (articles 93-127) for mainstream insurance and in articles 57 and 58 for microinsurance. Regulations for mainstream insurance intermediation also apply to microinsurance intermediation.

4.5.1. Categories of intermediaries

There are five broad types of intermediaries in the Mozambique insurance market. In the mainstream space, the legislation allows for brokers, agents, promoters and bancassurance. The following discussion does not include the microinsurance provisions under the Insurance Act, which are discussed later.

Table 5 below discusses the broad types of intermediaries in more detail, this allows for comparison along a series of categories. In addition, Table 6 below considers the permissible activities for intermediaries.

	Brokers	Agents (natural persons)	Agents (commercial companies)	Promoters	"Specific"(microinsurance) Intermediary	Bancassurance
Definition	Intermediary in the form of a commercial company authorised to carry out insurance brokerage, developing its activity independently on behalf of and for the legitimate interest of its policyholders and insured persons.	Intermediary that is a natural person or commercial company who, in the name and on behalf of the insurer or broker which appoints the agent, is authorised to do all prospecting and to develop activity aimed at carrying out insurance, providing assistance to the insured in all that relates to insurance contracts entered into, and through an agreement with the insurer to collect premiums.		Natural person who, acting solely on behalf of one or more insurer, can promote the awarding of contracts and insurance operations for the insurer.	This category includes banks, MFIs, NGOs, mobile operators and retailers (amongst others). These are a multi-enabled set of intermediaries. The ISSM can revisit the specific provisions at a later date. "Specific" microinsurance intermediaries do not fall under the general regime for insurance intermediation.	Bancassurance is excluded from the general regime for insurance intermediation. Banks are permitted to intermediate microinsurance, but are only able to sell credit life on loans "granted under the legislation regulating microfinance". Intermediation role may be largely limited to non-life products.
Registration w/ ISSM	Direct registration with the ISSM: As a commercial company, brokers are required to deposit 50% of share capital in an authorised credit institution in Mozambique. Must notify ISSM prior to opening branches or forms of corporate representation.	Registration with the ISSM via the insurer: Receives basic training in insurance from an insurer or broker and is tied exclusively to the insurer or broker that registers the agent. Once the agent passes the examination he/she achieves immediate registration as an insurance intermediary and is subsequently issued with an insurance agent identification card.	Direct registration with the ISSM.	Registration with the ISSM via the insurer: The natural Person must attend a training course defined by the ISSM and administered by the insurer registering the promoter. The insurer must issue and deliver an insurance identification document to the promoter with ISSM registration number.	Insurer must communicate with the ISSM which "specific" microinsurance intermediaries it is using and which respective insurance lines are being intermediated.	Requires a signed agreement between a bank authorised to operate in Mozambique and an insurer, explicitly indicating the specific insurance line that is to be intermediated. The bank then indicates a natural person agent to be responsible for the insurance portfolio and registers that person with the ISSM.
Foreign Entities Registration w/ ISSM	Prove that is has been carrying out brokering in its country of origin for at least five years. Provide a balance sheet or profit-loss account covering the last three years of	Must have either Mozambican nationality, residency status, or any nationality of reciprocal treatment with insurance intermediation Must provide evidence that he/she has carried out the role	None	None	None	The ISSM is silent on this.

	Brokers	Agents (natural persons)	Agents (commercial companies)	Promoters	"Specific"(microinsurance) Intermediary	Bancassurance
	insurance brokering.	of an agent for at last five years in the country of origin				
Supervisory Tax	MT 10,000 (USD $365)	MT 3,000 (USD $37)	MT 3,000 (USD $109)	MT 1,000 (USD $37)	.	.
Professional Liability Cover/Banking Guarantee	Required (if performs premium collection) - equal to 10% of half of the projected premiums over the next 3 years. Cannot be less than MT 300,000	Required (if performs premium collection) - equal to 10% of half of the projected premiums over the next 3 years. Cannot be less than MT 90,000		Not required (not authorised to collect premiums)	Required - The ISSM is considering what an appropriate level should be.	ISSM has been silent on this aspect of intermediation.
Capital Requirements	Broker: MT 450,000 Reinsurance broker: MT 600,000 - with 3 years to gather capital requirements	None	MT 150,000 - with 3 years to gather capital requirements	None	None	Concessionary regime created for bancassurance (see Table 1)
Remuneration structure applicable[68]	(1)Brokerage commission[69] (2) Collection commission[70]	(1)Intermediation commission (2) Collection commission		(1)Intermediation commission	None (open to negotiation)	None (open to negotiation)
Education/Professional and Technical Requirements	At least one manager or administrator should be registered as an agent (individual) for at least 4 years, or; Have proven experience in the technical and commercial areas of insurance for at least 4 years, holding a CV and certificate of good conduct.	School leavers (12th grade or equivalent) can access training material produced by the ISSM. The onus is upon the insurer or broker to train the agent. Prove prior professional experience in technical and commercial insurance (including foreign applicants) for a minimum of 5 years without interruption, or; Prove 5 years of experience in a technical function within an insurance division of a	At least one of the agent company's business directors or managers must be registered as a natural person agent. There must be at least one full-time member of staff with knowledge of insurance business.	Promoters must attend a training course with an insurance syllabus defined by the ISSM and administered by the insurer.	Insurer or microinsurer must administer technical training to the respective microinsurance intermediary, the content of which has not been defined by the ISSM.	N/A

[68] Commissions are not capped and insurers can freely negotiate the value of the commission applied to intermediaries.
[69] Brokerage and collection commission contracts can include a single intermediary (except in the case of co-insurance).
[70] Authorised for premium collection

	Brokers	Agents (natural persons)	Agents (commercial companies)	Promoters	"Specific"(microinsurance) Intermediary	Bancassurance
		supervisory entity, or; Someone with an academic qualification recognised by the ISSM.				
Tied/ Independent	Independent	Tied to a single insurer for life and one for non-life insurance, as well as a broker.	Independent	Multi-tied to insurers/tied to a single insurer [further clarity is required in regulations].	Tied to one insurer for life and one for non-life	Tied to single insurer
Insurance must be intermediary's exclusive activity	YES	YES	YES	YES	NO	NO
ID document required	N/A	YES	N/A	YES	NO	N/A
Premium collection permitted	YES	YES	YES	NO	YES	YES
Rules of Conduct applicable	Applicable	Applicable	Applicable	Applicable	N/A	N/A
Can intermediate microinsurance	YES	YES	YES	Not explicitly mentioned	YES	YES
Other	The denomination of insurance broker (*corretor de seguros*) or reinsurance broker (*corretor de resseguro*) should be present in the name.			Carries out insurance intermediation business exclusively for the insurance company that contracted the promoter's services and issued an identification document [this clause means that it is not clear whether the promoter is tied to a single insurer or is multitied].		

Table 5. Intermediation Regulation

Source: Insurance Act

Permitted Activities		
Brokers	**Agents**	**Promoters**
• Prepare insurance contracts, providing assistance to such contracts; • Offer the functions of an insurance consultancy; • Carry out studies or submit technical advice about insurance; • Intermediate directly or through insurance agents; and • Can engage in premium collection.[71]	• Prepare and conclude contracts, providing assistance to such contracts; • Intervene at the request of the insurer in the settlement of claims; and • If duly and expressly authorised by the insurer, collect premium receipts on their own insurance portfolio. For this, they must enter into a contract of professional liability insurance (as aforementioned).[72]	**Requires further clarification from the ISSM, but it appears promoters:** • Cannot collect premiums but can advertise insurance. • Are not able to sell insurance but assume an administrator-type function. • Not included alongside agents, brokers and microinsurance intermediaries as those that are allowed to intermediate microinsurance (article 57, Insurance Act).
Non-permitted Activities		
• Intermediaries are not allowed to enter into contracts with insurers that are not authorised to underwrite insurance in Mozambique. • Intermediaries are not permitted to concede commissions or part-commissions to the policyholder, the insured, third-parties or other intermediaries. They are not allowed to offer any discount on premiums. • Intermediaries cannot use another profession to influence the negotiational freedom of the policyholder, specifically in relation to their choice of intermediary or insurer. With regards to the policyholder's choice of intermediary or insurer, the intermediary cannot exercise the influence of a second profession in the policyholder determining that choice. • Intermediaries (in the form of natural person) cannot carry out their activities when either the policyholder or the insured is the intermediary themselves or any entity or organisation in which the intermediary is a member, administrator or manager. The policyholder or insured may not be the spouse or direct or second-degree relative of the intermediary or any company referred to. • Intermediaries (in the form of commercial company) cannot carry out their activities when either the policyholder or the insured is the company itself; its members, shareholders, administrators or managers or the spouses or relatives with the same rules as above.[73] • Mutuals cannot use insurance intermediaries to sell insurance to their own members.[74]		

Table 6. Permitted activities of intermediaries

Source: Insurance Act

Unauthorised entities prohibited from intermediation. Intermediation of insurance can only be carried out by entities that are registered with the ISSM (article 7(2), Insurance Act) (except for microinsurance intermediaries). For each insurance contract, there can only be one intermediary, except in the case of a contract being registered as co-insurance (article 93, regulations (1 and 2)).

The **following persons cannot intermediate insurance**, either directly or through an intermediary, hold administrative or managerial posts in an intermediary company, or hold interests in companies authorised to broker, and vice-versa (article 62, Insurance Act):

- Employees of insurance companies
- Administrators or managers of insurance companies
- Assessors
- Employees of the ISSM

[71] Article 106, regulations
[72] Article 115, regulations
[73] Article 100, regulations
[74] Article 14(3), regulations

4.5.2. Rules of conduct for intermediaries

Contributing to an unlevel playing field. Brokers, agents and promoters appear to be subject to a set of rules of conduct prescribed in the regulations. Specific rules are detailed for brokers, but not for agents and promoters. Bancassurance and microinsurance intermediaries are exempt from these rules (article 59(5)), contributing to an unlevel playing field, an issue raised in the conclusions.

Ensuring the payment of outstanding premiums. Intermediaries should abstain from any action that aims to transfer an insurance portfolio from one insurer to another if the premiums to the former have not been paid by the date of the transfer (article 63(2b)).

Specific rules of conduct for brokers. The rules of conduct require brokers to demonstrate good faith and integrity remain transparent with advice, commissions and policy information and demonstrate good practice for the benefit of customers, as well as ensuring client confidentiality. One of the specific obligations of an insurance broker is to work with a number of insurers "found to be sufficiently broad and diverse" in order to better meet the needs of its customers (article 111(2b), regulations).

Creating the space for additional rules of conduct. In addition to the regulations prescribed by the ISSM on rules of conduct, the trade association representing insurance brokers may adopt additional, complementary rules of conduct to those in the regulations. These should be followed by the members and employees of brokerages. This is described as "part of an effort to strengthen the ethics and discipline of action in the market, based on fair competition and consumer protection insurance" (article 111(3), regulations).

4.5.3. Microinsurance policies and contracting

Mainstream policy and contracting regime is not suitable for microinsurance space. The Insurance Act contains extensive articles dealing with how insurance contracts are entered into and what the content of policies should be (articles 98-107). There are no clauses in these articles that stipulate that they do not apply to the microinsurance regime. Therefore, *prima facie*, the Insurance Act does not provide for simplified contracting and simplified policies for microinsurance. The ISSM is aware of this and is contemplating further revisions thereto.

Requiring the policyholder to make a proposal. The policyholder is required to make a proposal that "must contain all the elements necessary for a proper assessment of risk to be insured and which may influence the terms or the existence of the contract" (article 98(1)). The insurer should provide a printed questionnaire which forms an integral part of the proposal (article 98(2)). This could be very onerous within a microinsurance regime for both the policyholder and the insurer.

The contract must be in writing. The Insurance Act also contains a clause requiring the insurance contract to be in writing. It is not clear whether this would include electronic written form. This may not be easily viable within a microinsurance regime due to illiteracy levels or other constraints in having access to writing materials (article 102). More flexibility would be required within a microinsurance regime due to considerations concerning access to writing materials, illiteracy and ensuring that policy documentation is in plain language.

The requirement to contain all conditions in the policy. Although the policy is designed to be thorough in the mainstream regime (including general, specific and particular conditions), within a microinsurance regime a simplified policy is important (articles 103 and 104). Further consideration will be required to strike a careful balance between disclosure and simplicity.

Physical delivery of policy creates a cost burden. The requirement to physically deliver a policy document could be costly from a microinsurance perspective and in practice might not be viable, particularly if a policy needs to be sent to a rural, remote area of the country. This provision could be burdensome for a pilot microinsurance project and may impact upon the pilot's sustainability, particularly since the policyholder can claim back the total premium paid in the event that she/he does not receive the policy document (article 106 (1 and 2)).

4.6. Consumer Protection

The revised regulatory framework has introduced various aspects of consumer protection.

General consumer protection principles applied to the sector. The Insurance Act contains a clause which applies the principles of consumer protection to insurance (article 89(1)). Further, in terms of the contracting of insurance, the principles of equality found in article 35 of the Constitution should not be violated (article 89(2 and 3)). The Insurance Act also includes a provision that the assumption of risk by the insurer should be based on a statistical database and actuarial rigour (article 89(4)).[75] The Consumer Protection Act (Law nr 22/2009) also provides generic guidance. Consultation with the ISSM has indicated that this latter Act should be regulated in due course by subordinate legislation (*Decreto*) which will then contain specific provisions on insurance, further consolidating consumer protection for the sector.

Extensive disclosure requirements provide considerable consumer protection. In preparing an insurance contract, "parties must provide all information and clarifications required for the circumstances" (article 90(1)). The same article highlights that consumer protection should not be compromised in the pre-contractual phase (article 90(2)). The Insurance Act contains a comprehensive list of disclosures that amount to consumer protection and should be made in the pre-contractual phase (article 91), including the nature and size of the risk insured, the limitations of cover, and the amount of the premium. There is a comprehensive requirement to disclose all risk (article 95).

Protecting the consumer in the case of foreign underwriting. In the case of foreign underwriting, the consumer must be made aware before forming an agreement that the insurer is based outside of Mozambique (article 92(2)). This information should be available in the policy (article 92(2)).

Maintaining a facilitative disclosure regime for the policyholder's benefit. The Act makes it clear that the supervisory entity can make rules requiring more information disclosure for the policyholder's benefit (article 93(2)).

[75] The advertising carried out by insurers is subject to general law; regulation of the material of which is the responsibility of the ISSM, taking into account consumer protection in general and insurance in particular (article 88, regulations).

No microinsurance-specific parameters on consumer protection. Similar to the discussion on policies and contracting within the microinsurance regime, the consumer protection provisions (disclosure requirements) that are contained in the Insurance Act (articles 91-107) may impose a substantial cost burden in the microinsurance space and may not be operationally sustainable for microinsurance providers. Careful consideration should be given to understanding the impact of these requirements on the business models and to ensure that such costs are minimised while still ensuring appropriate protection.

No requirements on recourse. The regulatory framework does not impose any requirements on insurers or intermediaries to provide channels of recourse. For microinsurance in particular, it will be important to consider such channels of recourse, though these should be implemented in the most efficient manner so as to minimise additional compliance costs.

4.7. Other regulation of relevance to the insurance sector

In addition to the insurance regulation noted above there are also other aspects of the legislative framework that impact upon the development of microinsurance in Mozambique. These are discussed below. Appendix H: Annex 2 contains more information in this regard.

4.7.1. Banking and microfinance legislation

Banks and microfinance institutions play a major role in the distribution of insurance (and potentially microinsurance) in Mozambique. In this section we consider relevant aspects of the regulation of these institutions.

The microfinance industry in Mozambique is characterised by three broad types of institutions (see financial sector context):

- Formal microfinance focused commercial banks
- Formal microfinance operators (microbanks), supervised or monitored under the microfinance regulations (Decree 57/2004)
- Informal Savings and Credit groups promoted by NGOs (operating outside of the regulatory space).

Bank of Mozambique as supervisor of the banking and microfinance sector. The BM authorises the creation of banks, microbanks, and credit cooperatives.

Prompting the creation of a tiered system for microfinance institutions. The main legislative tool for the banking and microfinance sector is the Law on Credit and Financial Companies (Law 15/99)[76] as amended by Law 9/2004, introducing a tiered system for microbanks (*microbancos*) as well as a definition of microfinance. This law deals with microfinance focused commercial banks, treated as **"banks".**

Introduction of a general regulatory framework for microfinance. The changes to the main law prompted the establishment of a general regulatory framework for microfinance (Decree 57/2004) and amendment Law 9/2004 (henceforth referred to as **microfinance regulations**). This framework encompasses microfinance operators, microbanks (credit institutions whose main purpose is to carry on microbanking) and credit cooperatives,

[76] This is *Lei No. 15/99* – which regulates the exercise and activity of credit institutions and financial companies.

together **"MFIs".** The definitions of various microfinance operators are detailed in Appendix H: Annex 3.

Definition of microfinance. The microfinance regulations define microfinance as an activity comprising the provision of financial services, essentially to small and medium sized operations (article 1(2), microfinance regulations).

Delineating the types of microbanks. Microbanks and "other" microfinance operators are divided into four broad categories in the Mozambique market[77] as shown in Table 7 below:

Category	Function
Category A	Deposit taking institution comprising of all four types of **microbank** (savings banks, Post office savings bank, rural finance bank[78], and general savings and credit microbanks)
Category B	Deposit taking institutions only for their members (e.g. **credit cooperatives** and **savings and credit** organisations).
Category C	Only grant credit (e.g. **microcredit operators**)
Category D	Deposit intermediaries (e.g. **deposit brokers**)

Table 7. "Other" microfinance operator categories

Source: Microfinance regulations (Decree 57/2004), 2004

Potentially restricting common bond requirements. It is noteworthy that members of a cooperative must have at least one of the following connecting factors: a) they are in the same profession or occupation, are employees of the same employer or are engaged in the same business or branch of activity b) they are members of the same association or organisation of a social, religious, trade union or other nature c) they reside in the same rural or urban territorial area. These common bond requirements could restrict the scope of microinsurance penetration among cooperatives if microinsurance is to be sold within the concessionary environment for mutuals (article 42, MFI regulations).

No barrier for banks in the marketing of insurance. Commercial banks are permitted to market insurance contracts.[79]

Enabling the potential for MFIs in insurance intermediation. The Insurance Act outlines the role for MFIs to act as microinsurance intermediaries for microinsurance products. The intermediation of insurance is not specifically included in the mandate of microfinance

[77] Article 2, microfinance regulations
[78] It is noteworthy that rural finance banks must focus at least 50 per cent of their business in the rural sphere, under terms that the BM may establish (article 35(1), microfinance regulations).
[79] Article 4, Law 15/99 (including amendments made by Law 9/2004).

institutions but the MFI regulations leave space for the pursuit of complementary financial services, opening the possibility for the intermediation of insurance.[80]

Potentially restricting a microbank's intermediation of insurance to credit life. Other operations that microbanks may provide must be "strictly necessary" for the "proper execution" of a) granting credit and b) taking deposits from the public. Therefore, any other service would appear to have to be complementary to these. This may limit insurance intermediation to just credit life. The BM must approve microbanks offering other financial services. This leaves microbanks' broader activity to the discretion of the BM.[81]

MFIs have far lower capital requirements than commercial banks. Table 8 below provides a brief summary of aspects of the current microfinance regulatory environment. The minimum capital for microcredit institutions is far less than that required to constitute a bank at MT 70 million (USD $2.6m)[82] (which are permitted to take deposits from clients as well as supply credit).

Distinction between monitoring and prudential supervision. The microfinance regulations draw a distinction between those institutions that are monitored and those that receive prudential supervision, as well as those that are allowed to distribute credit and those that are allowed to take deposits, as shown in Table 8 below.

Microfinance Providers			**Minimum Capital Stock Requirements (in MT)**	**Services Permitted**			
				Deposit-taking		**Credit supply**	
				From public	**Members only**	**To Public**	**Members only**
Subject to prudential supervision	**Microbanks**	**General Credit & Savings *Caixa* (microbank)**	5,000,000 (USD $182,500)	Yes	n/a	Yes	n/a
		Rural Finance *Caixa* (microbank)	1,200,000 (USD $43,800)	Yes	n/a	Yes	n/a
		Economic *Caixa* (microbank)	2,400,000 (USD $87,600)	Yes	n/a	Yes	n/a
		Postal Savings *Caixa* (microbank)	1,800,000 (USD $65,700)	Yes	n/a	No	n/a
	Credit Cooperatives		200,000 (USD $7,300)	No	Yes	No	Yes

[80] It is stipulated that "microbanks may, on submission of a fully reasoned application to the BM, be authorised to provide other complementary financial services that they are not barred from providing by law, as long as they have the financial and technical conditions needed to provide such services with quality and security, and the services are of relevant public utility and necessity" (article 34, microfinance regulations).
[81] Article 34 (1), microfinance regulations.
[82] Aviso GBM 4/2005.

Microfinance Providers		Minimum Capital Stock Requirements (in MT)	Services Permitted			
			Deposit-taking		Credit supply	
			From public	Members only	To Public	Members only
Monitored	Savings and Credit Organisations	150,000 (USD $5,475)	No	Yes	Yes	No
	Other microcredit operators	75,000 (USD $2,737)	No	n/a	Yes	n/a
	Deposit intermediaries	n/a	Yes	n/a	No	n/a

Table 8. Outline of the microfinance landscape

Source: Bank of Mozambique, 2004

4.7.2. Payment system legislation

A brief consideration of the payment system legislation is important to determine how it can facilitate the distribution of insurance.

A new law establishes the National Payment System ("NPS"), Law 02/08 (the Payments Law) Entities intervening in the NPS fall within the jurisdiction of the BM. Today, the only such entities falling under the BM's remit are banks, Carteira Móvel (a licensed e-money issuer, subsidiary of Mcel) and Interbancos, a non-bank switch.

Mobile payments could help develop the insurance market. Carteira Movel, the mobile bank, branded as M-kesh, is authorised to provide payment services. An additional mobile provider such as Vodacom would have to request a similar status from the BM in order to offer such services. As noted below, mobile payments can play a significant role in supporting the extension of insurance. Please see Appendix M: and Appendix N: for additional information.

4.7.3. Cooperatives legislation

Here we briefly explore the General Law on Cooperatives (Law 23/2009), henceforth referred to as the **Cooperatives Act**. This is necessary as the mutual legal form (formed as a cooperative) is permitted to underwrite insurance and microinsurance under certain conditions, as discussed earlier under permissible legal forms (see Section 4.4.1).

There is a tiered system within cooperatives as in many other countries such as Brazil, Kenya and Tanzania. Tier 1 consists of cooperatives and tier 2 consists of unions, federations and confederations of cooperatives.

Cooperatives Act does not impede the development of microinsurance. As discussed earlier, the Insurance Act allows for the creation of microinsurance mutuals. Cooperatives can carry out any activity without limitations, which can be carried out by private businesses or any other juridical entities of the same nature, as well as by NGOs (article 4, Cooperatives Act). Cooperatives can also provide any economic activity as long as there is no infringement of

the law (article 4). Cooperatives are allowed to be *multiramal* (multi-business-streamed) (article 8, Cooperatives Act). Further, Cooperatives can associate themselves with other entities for the development of economic activity, through contracts of "participatory association, consortia or others" (Cooperatives Act, article 9).

There is no limit to the number of members within a cooperative. There must be a minimum of five members for tier 1 cooperatives and two members for tier 2 cooperatives. This widens the scope for microinsurance penetration as there is no cap on the membership (article 11, Cooperatives Act).

Outlining a cooperative's permitted activity. Whilst the Cooperatives Act allows for a cooperative to pursue multiple lines of economic activity, the microinsurance regime contained in the Insurance Act requires that microinsurers must have as their exclusive business purpose, the practise of microinsurance activity, with the exception of activities linked or complementary to that of microinsurance, "namely those that respect acts and contracts relative to salvaged goods, re-edification and repair of buildings and the application of financial resources" (article 45, Insurance Act). This would imply that a microinsurance cooperative (mutual) would need to solely pursue microinsurance and could not for example be an agricultural cooperative.

Common bond requirements. As stated above in Section 4.7.1 the common bond requirements of cooperatives may restrict microinsurance penetration.

Building insurance expertise within a cooperative's corporate governance. The management of a cooperative must be composed of a minimum of two-thirds members of the cooperative. For those with in excess of 30 members, there should be at least three people in the management including a President. For those with fewer than 30 members, there should be at least two people (article 57, Cooperatives Act). This leaves the opportunity to include individuals who are non-members in the management of a cooperative. This could in theory include an individual with insurance expertise. These specific corporate governance requirements could be expanded in the Insurance Act.

Cooperatives (mutuals) providing microinsurance to non-members must obey the requirements of the Cooperatives Act. "Cooperative acts" are described as those that are "practiced between cooperatives and their members" (article 6.) Services rendered to non-members must in no way prejudice existing members (article 5(2), Cooperatives Act). Further, the same law stipulates that activity pursued with non-members as well as other entities must be marked in separate accounts. Therefore, there is no restriction according to both the Cooperatives Act and the Insurance Act in providing microinsurance to non-members but there would be increased supervisory requirements as observed here (article 5).

5. Market Analysis

5.1. Players, size, ownership and performance

In this section we provide a high-level review of the state of the insurance market in the context of historical developments. Consideration is also given to the informal insurance landscape.

5.1.1. Historical Context

Nationalisation gave way to a deregulated industry in an era of privatisation. Following Mozambique's independence in 1975, a period of rapid nationalisation ensued until 1987. From 1987 onward the country privatised its economy via the Economic Recovery Programme (PRE). In 1989, a legal framework for privatisation was introduced and in 1991 a new set of laws were introduced formulating objectives for privatisation. It was during this period that the insurance sector saw the entry of two private insurers, Seguradora Internacional de Moçambique ("SIM") and Companhia Geral De Seguros De Mozambique ("CGSM").

SIM, until recently the only bank-owned insurer, is owned by Millennium BIM, the largest commercial bank in Mozambique. SIM's brands are SIM and IMPAR, the former being sold to individuals via Millennium BIM while products under the latter are sold to commercial customers. CGSM entered the insurance market in Mozambique in 1993 becoming a subsidiary of Global Alliance Holdings in 2001 and subsequently changing its name to Global Alliance Seguros in 2006 ("Global Alliance"). Despite its composite license, Global Alliance only started to underwrite life insurance in 2010.

Expansion of players since the market opened to private initiative and foreign ownership. The regulated Mozambique insurance market as of April 2012 consisted of seven insurers and one reinsurer. Table 9 below details these. Ownership structures include a mix of Mozambican, South African, Malawian, Portuguese and Kenyan origins. Portuguese companies were the first to show interest in the Mozambique industry shortly after privatisation initiatives began in the 1990s. Other foreign players, all based in Africa, began entering the market from 2001 after the legislative reforms brought regulatory certainty.

Table 9 below shows a list of authorised insurance companies operating in the Mozambican market.

Insurance Companies (September 2011)	Type of License	Start of Operations	Current Ownership Structure
Empresa Moçambicana de Seguros (EMOSE)	Composite	1981	80% government owned; 20% employee shares (Mozambican ownership)
Seguradora Internacional de Moçambique (SIM)	Composite	1992	90% owned by BIM, (Portuguese ownership)
Global Alliance-CGSM (GA)/ Global Alliance Seguros	Composite	1993/2001[83]	100% share capital owned by Absa (South Africa, since 1 September 2011.

[83] CGSM was established in Mozambique in 1993. In 2001, the company was acquired by Global Alliance and subsequently changed its name to Global Alliance Seguros from 2001.

Insurance Companies (September 2011)	Type of License	Start of Operations	Current Ownership Structure
Hollard Moçambique Companhia de Seguros	Non-life	2001	86% owned subsidiary of Hollard Insurance South Africa (Source: 2009 annual report)
Hollard-Vida Companhia de Seguros, SA	Life	2008	
Moçambique Companhia de Seguros, SA (MCS)	Non-life	2001	Main shareholder is Lusitania (Portuguese insurance company) is a principal shareholder.
Austral Seguros, SA (Austral)	Non-life	2008	100% privately owned (Mozambican ownership)
Real Compahia de Seguros, SA (Real)	Non-life	2010	Subsidiary of REAL Kenya with minority local shareholders
Tranquilidade Companhia de Seguros Vida SA	Life	2012	Portuguese origin, ownership structure unknown.
Companhia de Seguros Indico SA	Non-life	2012	Ownership structure unknown
NICO Mocambique Vida Companhia de Seguros SA	Life	2012	51% - NICO Holdings Limited 49% - Local through IPS Holdings Lda - 49% [84]
MozRe	Reinsurer	2007	JV – Government of Mozambique investment wing (20%); Continental Re Nigeria (19%), Emose (10%), Malawi Re (51%)

Table 9. List of the authorised insurance companies in the Mozambique market

Source: ISSM 2012 data, unpublished

Regulatory and association bodies. The ISSM (Instituto de Supervisao de Seguros de Mocambique) established in 2011 under the Ministry of Finance, is the regulatory body for the sector.

The Associação Moçambicana de Seguradoras (AMS) is the insurance industry association. At the time of the research in September 2011 industry consultation suggested that the association is largely inactive.

5.1.2. Trends in Premium Growth and Market Shares

[84] Source: NICO Mocambique Vida Companhia de Seguros SA, 2012 (NICO Mocambique Vida Companhia de Seguros SA).

Figure 3 below shows trends in insurance penetration growth (total premiums underwritten as a percentage of GDP) between the years 2005 and 2010.

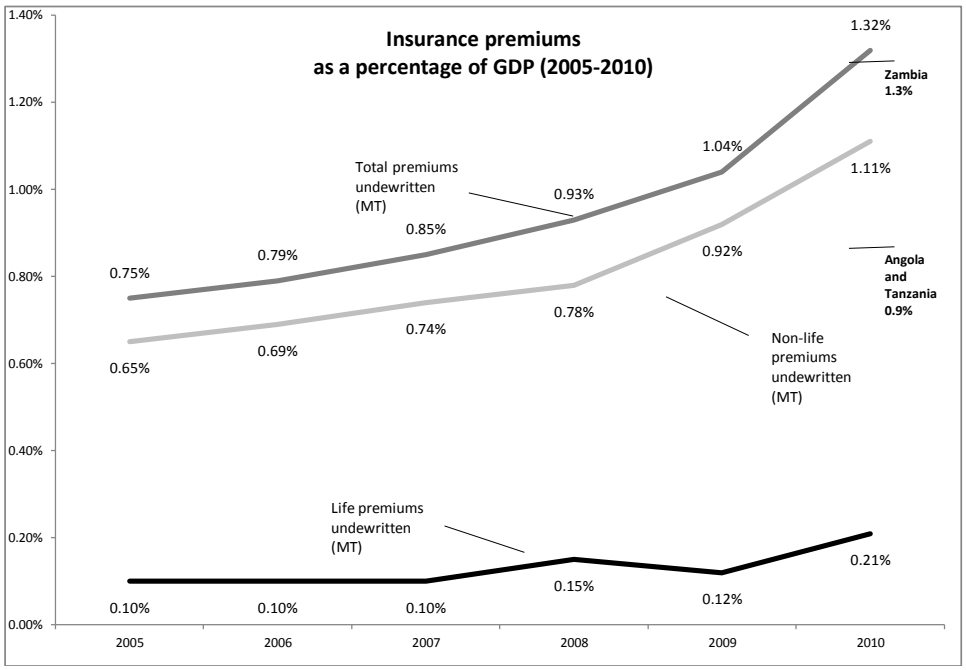


Figure 3. Insurance penetration as a percentage of GDP

Source: IGS/ISSM Reports 2005-2009 and ISSM 2010 data, unpublished

Small market with penetration comparable to Southern African Development Community ("SADC") performance.[85] The total insurance market in Mozambique as of 2010 was still limited with total premiums of MT 3,309m (USD $126m)[86] for non-life insurance and MT 636m (USD $24m) for life insurance.[87] This equalled 1.3% of GDP in 2010. This is equal to that of Zambia but greater than that of Tanzania [88] and Angola[89] although still considerably lower than the 3.0% in Malawi[90] and 2.8% in Kenya.[91]

Strong and accelerating premium growth in life and non-life insurance. From a small base, the insurance industry is growing rapidly and growth is accelerating. Gross premium growth between 2004 and 2007 was 17%, rising to 31% between 2007 and 2010.

[85] Member states of SADC are Angola, Botswana, Democratic Republic of the Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.
[86] Using an exchange rate of (1.00:26.5) for USD-MT, henceforth applied throughout the document.
[87] ISSM 2010. Note that these figures have not yet been published in an annual report. They also exclude reinsurance premiums ceded to foreign insurers.
[88] Tanzanian Insurance Regulatory Authority, Annual Insurance Market Performance Report, 31 December 2010.
[89] World insurance in 2009, No2/2011, Swiss Re Sigma Report.
[90] 'Malawi beats neighbours in insurance penetration', The Nation, 21 September 2010. Available at: http://www.mwnation.com/index.php/business-news/6160-malawi-beats-neighbours-in-insurance-penetration.html
[91] World insurance in 2010, No2/2011, Swiss Re Sigma Report. Calculated by dividing al direct premiums of life and non-life data from SwissRe (2010) by nominal GDP figures for 2010 obtained from the World Bank World Development Indicators database. Data is not available before 2007.

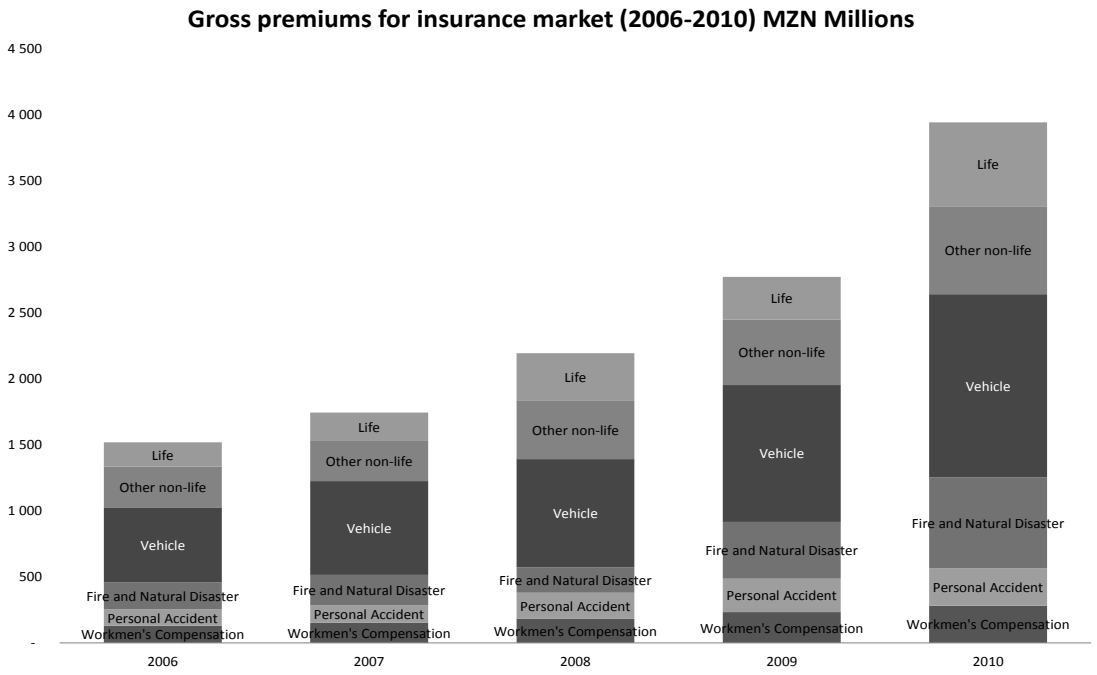


Figure 4. Gross premiums for total insurance market (2006-2010) MT Millions

Source: IGS/ISSM Reports 2006-2009 and ISSM 2010 data, unpublished

Non-life dominant driven by compulsory lines. Figure 4 above shows the gross premiums for the total insurance market between the years 2006 and 2010. Driven largely by compulsory lines mandated by the government and non-compulsory fire and natural disaster insurance, gross premiums for the non-life market were more than five times larger than for the life market in 2010. Non-life compulsory lines include third-party liability vehicle insurance, workmen's compensation and public liability insurance which, until 2008, accounted for the bulk of gross premiums. However, following the initial bump (largely due to being made compulsory), growth in compulsory lines has remained stagnant and the growth in gross non-life premiums has been largely driven by non-compulsory fire insurance (89% per annum from 2008 to 2010).

Life contribution increasing. Despite the growing focus on life business, in terms of size it made up only 19% of total insurance premiums in 2010. In terms of growth, though, life premiums have been growing faster than non-life premiums with a growth rate of 32% per annum from 2005 to 2010 as opposed 26% for non-life. Life business has been another major contributor to the recent rapid growth of the insurance industry with life premiums doubling between 2009 and 2010.

The life industry in Mozambique is primarily dominated by credit life products, followed by those funeral products that are currently being written under a life or non-life licence. There are very limited instances of group or individual risk policies that pay out in the case of death, illness or permanent disability. Industry consultation suggests that this market may develop with the entry of NICO Life from Malawi in April 2012. Life products linked to savings and capitalisation units do not yet exist in Mozambique as the tax incentives are not

yet in place. Such products have proved successful in other SADC countries, including in Botswana, Malawi and Zimbabwe and outside of Africa in Brazil. The products linked to savings and capitalisation mechanisms although useful would be reserved in the context of Mozambique for a limited proportion of the population who can afford to save.

The earliest insurance players still dominate the life market but new entrants are creating new markets. Table 10 below shows that SIM still has the largest market share in life insurance, but it is down from 75% in 2008 to 59% in 2010. The major contributor to this was the entry of Hollard (South Africa) to the life insurance market in 2010, which saw the joint monopoly of SIM and Empresa Moçambicana de Seguros (EMOSE) eroded to 84%. However, as Table 10 below indicates, Hollard Moçambique Companhia de Seguros and Hollard-Vida Companhia de Seguros, SA ("Hollard")'s entrance did not result in a decline in SIM's absolute portfolio of clients, but rather a growing market. SIM still maintained the bulk of its book which comes from an exclusive bancassurance arrangement through BIM.

Year	SIM	EMOSE	HOLLARD	GA/CGSM	Total
2003	222	15	---	---	237
2004	100	20	---	---	120
2005	108	49	---	---	157
2006	140	44	---	---	184
2007	167	48	---	---	215
2008	266	91	---	---	357
2009	214	94	14	---	323
2010	377	161	93	6	636

Table 10. Gross premiums underwritten (life) 2002-2010 (MT Millions)

Source: (IGS/ISSM 2002-2010)

Move from asset to life (based on development of credit market). Companies tend to enter the market by underwriting non-life business and commence life business thereafter. This has been the case for both Global Alliance and Hollard, while both Austral and Real have indicated they are considering entering the life market. The shift to life business can be linked to growth in credit life business on the back of growth in retail lending by finance institutions.

Less concentrated non-life market reflects longer presence of competition. In comparison to the concentration in the life insurance market, EMOSE and SIM accounted for only 49% of the non-life market in 2010, down from 59% in 2008. Competition has increased with Global Alliance's increased market share and the entry of Austral. However, rather than competing over existing clients, total gross premiums underwritten for all non-life business have increased.

Figure 5 below indicates the relative shares of the market participants in the life and non-life sectors.

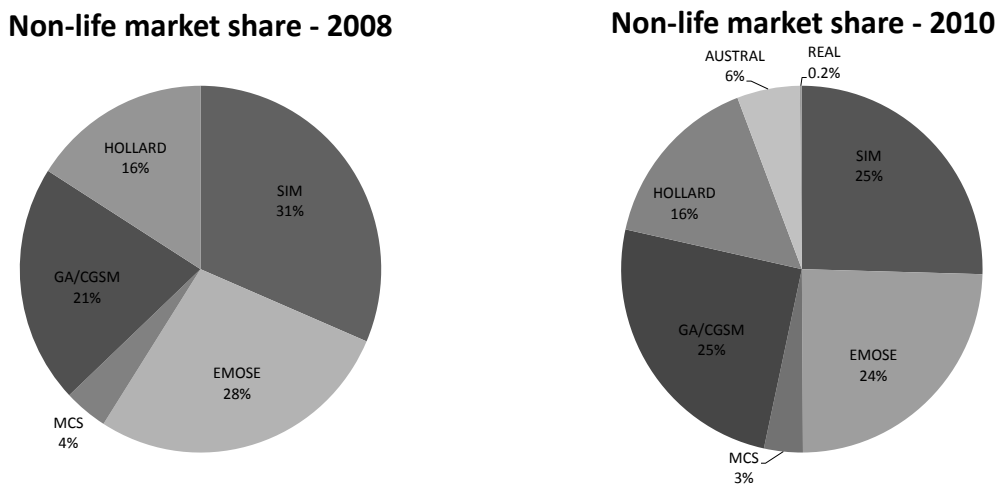


Figure 5. Non-life market share for 2008 and 2010

Source: IGS/ISSM Reports 2006-2009 and ISSM 2010 data, unpublished

Figure 6 below shows the life market share for the years 2008 and 2010.

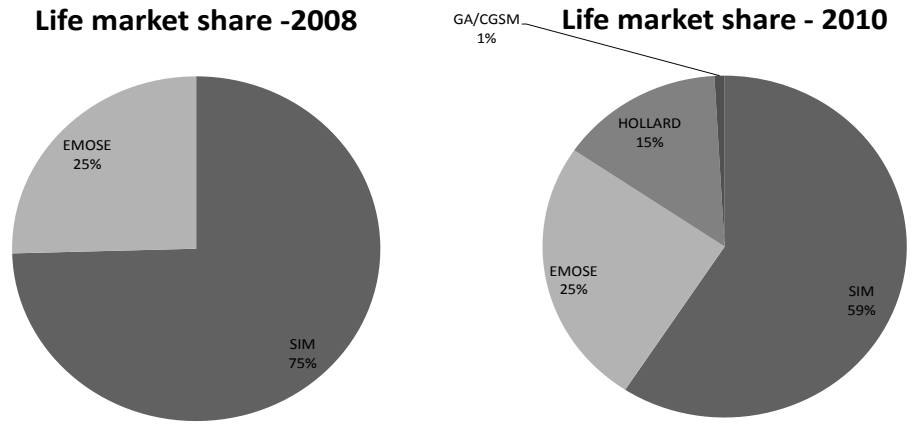


Figure 6. Life market share for 2008 and 2010

Source: IGS/ISSM Reports 2006-2009 and ISSM 2010 data, unpublished

Figure 7 below portrays the total insurance market including the INSS. FinScope Mozambique estimates there are c. 680,000 insurance policies in total and the bulk of these (62.4%) are considered INSS social security provision. The INSS potentially has the largest market share due to the fact that membership is compulsory for formal employees. EMOSE and SIM (shown as IMPAR in Figure 7 below) have the widest branch network and are the formal insurance companies with the largest market.

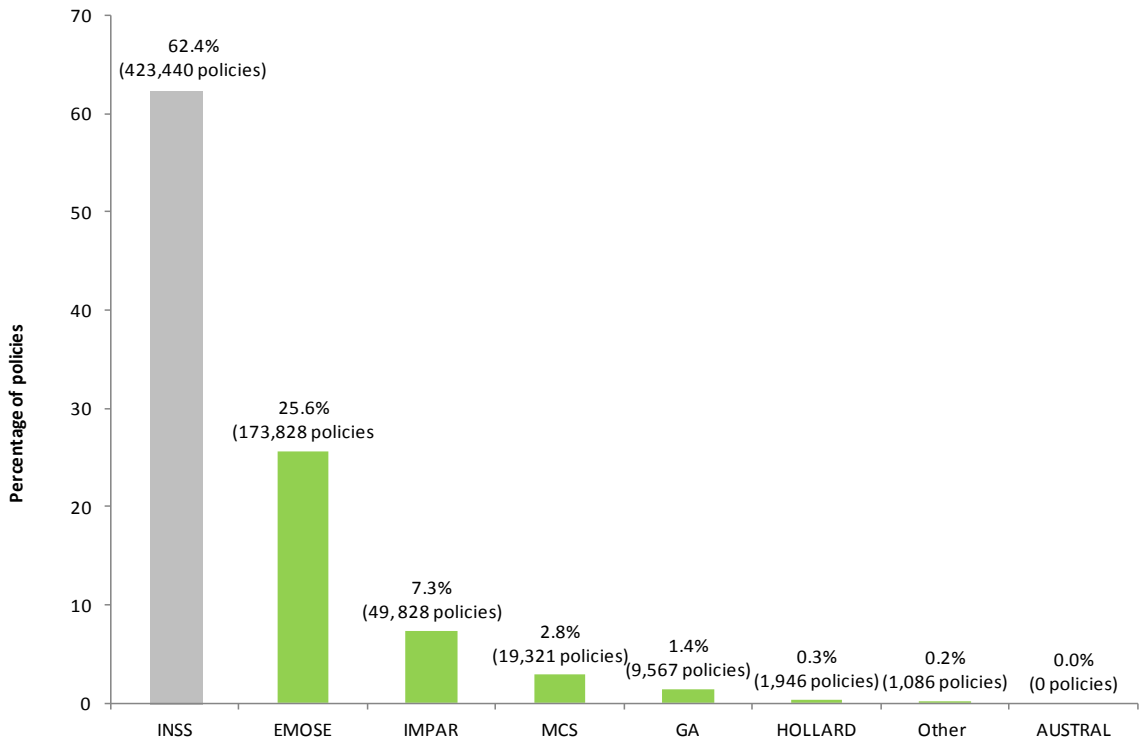


Figure 7. Market share of the Mozambican insurance market according to the total number of policies in the market.

Source: FinScope Mozambique, 2009.

Limited industry capacity. **Error! Reference source not found.**Table 11 below provides an overview of the staff and outreach capacity (number of registered agents and representatives) of insurers. It is clear that both professional and distribution capacity is very limted and may present challenges for **continued** growth of this sector.

Insurance company	No. of Employees	No. of local actuaries	No. of agents	No. of representatives
Empresa Moçambicana de Seguros (EMOSE)	368		30 (incl employed)	n/a
Seguradora Internacional de Moçambique (SIM)	138	1	n/a	n/a
Global Alliance-CGSM (GA)/ Global Alliance Seguros	78		n/a	n/a
Hollard Moçambique Companhia de Seguros /Hollard-Vida, SA (probably joint with above)	46, including 7 for Hollard Vida		n/a	n/a
Moçambique Companhia de Seguros (MCS)	25		20	n/a
Austral Seguros, SA	37		n/a	n/a

Insurance company	No. of Employees	No. of local actuaries	No. of agents	No. of representatives
Real Insurance	15		3	n/a
Mozre	13			

Table 11. Staff and outreach capacity of insurers

Source: Company annual reports (2010) and industry consultation

93% of reinsurance premiums ceded to foreign reinsurers. Table 12 below shows the reinsurance retention levels split between life and non-life lines. The percentage of reinsurance premiums that were ceded outside of the country was 98% in 2007, falling to 93% in 2009 (ISSM data). This shows that the only locally registered reinsurer, MozRe, which commenced business in 2007, is able to capture a growing share of the reinsurance market. The main foreign reinsurers with businesses in Mozambique are Munich Re, Swiss Re, Hannover Re and Africa Re. Other reinsurers include Continental Re, Nigeria Re, Kenya Re and Ghana Re. The percentage of premiums that has been retained has decreased between 2007 and 2009 for both life and non-life businesses, likely due to using international reinsurers for large infrastructure projects in line with infrastructure-led growth in Mozambique.

	2007	2008	2009
Life	93%	94%	90%
Non-life	74%	72%	69%

Table 12. Retention levels split between life and non-life

Source: IGS/ISSM Reports 2007 to 2009

5.1.3. Performance indicators: Profitability, solvency and efficiency

We move now to consider the salient features of performance at industry and company level. This is not intended to present a comprehensive analysis but focuses on performance indicators that may impact upon the ability of insurers to grow their businesses into lower-income markets. In addition to reflecting on solvency and profitability, the indicators also show efficiency levels in the current industry and its ability to offer value to consumers.

The IGS/ISSM 2009 Report contains two tables analysing key business ratios for life and non-life business. This compares the Mozambique industry against internationally recommended ratios and will be used as basis for this discussion.

A profitable insurance market. Combining life and non-life business reveals an average return on equity for the industry of 13% for 2009. SIM, the market leader[92], has a 25.2% return on equity; EMOSE, the second largest insurer, has a 6.2% return on equity; Global

[92] Contributing 31% of total industry premiums in 2010.

Alliance and Hollard have 16.5% and 14.2% respectively, marginally higher than the industry average. Austral produced a loss in its first year of activity, as expected for a start-up insurer.

A solvent and well-capitalised industry. Table 13 below shows the solvency ratios the insurance industry between the years 2007 and 2009 split by insurer. The industry reported good levels of solvency[93] with the ratio of liabilities to investment assets worsening slightly from 51% in 2007 to 55% in 2009. In addition to being solvent, the industry appears to have sufficient capacity to absorb adverse shock events. The industry ratio of capital to liabilities is in excess of 50%, having fallen only marginally between 2007 and 2009 (the lower the ratio, the lower the ability to absorb shock events). Based on this we can conclude that current stated levels of profitability have not been at the cost of financial security of policyholders.

Year	SIM	EMOSE	MCS	GA/CGSM	HOLLARD - non-life	Hollard - Life	AUSTRAL	MOZRE	Industry
2007	74%	28%	47%	24%	40%	n/a	n/a	31%	51%
2008	71%	28%	54%	48%	50%	n/a	n/a	47%	51%
2009	71%	37%	n/a	38%	50%	2%	786%	42%	55%

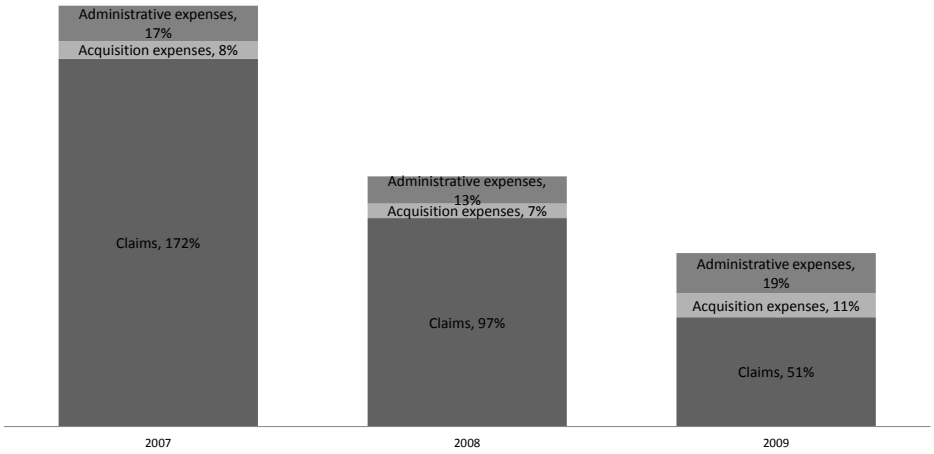
Table 13. Solvency – ratio of liabilities to assets (< 100% indicates insolvency) (MT Millions)

Source: IGS/ISSM reports 2007, 2008, 2009

Concentration of investment in illiquid assets. EMOSE and Global Alliance are heavily invested in property (74% and 65% respectively). SIM is heavily invested in Government bonds and other fixed income. Hollard holds a more diverse spread of investments. Over half of all investment assets in the market are attributed to SIM at 51%; EMOSE follows with 37%. The concentration of investments in illiquid property does not match well with the fact that 84% of 2010 gross written premiums are for non-life product lines, which require liquid short-term assets. The reason is that there is a lack of appropriate tradable instruments in Mozambique at present, a typical situation in least developed countries.

[93] A ratio in excess of 100% indicates insolvency

Life claims ratios recovered. Claims ratios in the life industry have varied substantially across years and across insurers. As shown in Figure 8 below**Error! Reference source not found.**, claims ratios for the life industry were unsustainably high in 2007 and 2008 (172% in 2007 and 97% in 2008)[94] but have reduced substantially to 51% of net written premiums in 2009. These dramatic changes reflect the challenges of managing a rapidly growing portfolio. The reduced claims ratio reflects improvements in terms of tighter claims management and underwriting, the result of which was evidenced in a reduction in life gross written premiums written in 2009 (MT 356.6m gross written premiums in 2008, reducing to MT



322.8m (USD $12.1m) in 2009).

Figure 8. Life operating ratios

Source: IGS/ISSM reports, 2007, 2008, 2009

Expense ratios for life insurance indicate a reasonable level of efficiency. Combined expenses (acquisition and administration) in the life insurance industry from 2007 to 2009 range between 20% and 30%. Administrative expenses account for roughly double the acquisition expenses, which may reflect the very limited retail distribution that is taking place. This is in line with trends in most SADC countries but exceeds the administrative expenses in South Africa and Namibia [95]

[94] The high claims ratios in 2007 and 2008 were largely offset by high reported investment returns in both of these years.
[95] FinMark Trust database of insurance industry indicators (work in progress), 2012

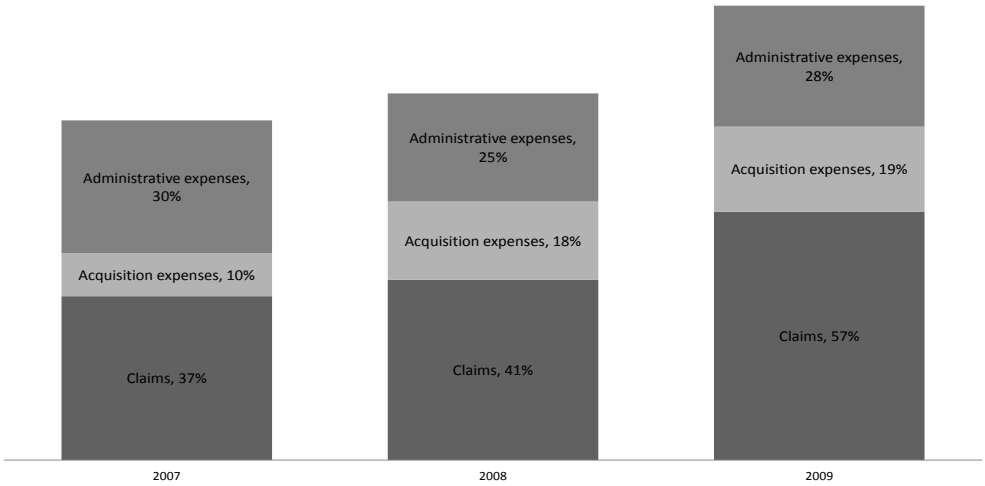


Figure 9. Non-life operating ratios

Source: IGS/ISSM reports, 2007, 2008, 2009

Improving non-life client value. Figure 9 above shows the non-life operating ratios. Claims ratios have been increasing steadily for the non-life industry from the low level of 37% of net written premiums in 2007 to 57% in 2009. The 2009 claims ratio suggests a reasonable balance between value to clients and profitability.

High non-life expense ratios. Combined expenses for non-life business are high and increased from 40% in 2007 to 47% in 2009, driven by an almost doubling of acquisition expenses from 10% in 2007 to 19% in 2009, which is particularly significant given that more than half of non-life premiums are still derived from compulsory product lines. The rise in acquisition expenses may be the result of increased competition within the non-life market, particularly for large corporate accounts driven by brokers. Administrative expenses have varied between 25% and 30% during 2007 to 2009, substantially higher than for the newer life business, which could indicate that the larger non-life business carries the bulk of fixed management costs.

Profitability remains strong. The increasing claims ratio and combined ratios for non-life business would seem to imply reduced profitability for the industry; however return on capital has remained fairly constant. This is explained by improved investment returns which partially offset the increased outgo, and by the fact that profits grew quicker than the increase in capital. The industry could experience profitability problems if a significant part of the investment returns are derived from unrealised gains on properties, which form a substantial proportion of the industry's investment assets (44% in 2009).

Increased competition placing pressure on business. Increasing acquisition expenses and claims ratios for non-life business provides evidence of the increasing competition squeezing risk margins. In the long term competition is positive and should ultimately provide consumers with good value products. However, the industry will need to manage growth appropriately to ensure profits are sustained at acceptable levels. The large uninsured market provides the opportunity for continued profitable growth.

5.1.4. Informal insurance landscape

Here we discuss the informal landscape for insurance. For the purpose of this analysis, informal insurance is defined as insurance type products that are offered by players that are not regulated for the purposes of doing so.

Box 4. A note on definition of informal insurance products

In this section we discuss a broad range of risk mitigation products and mechanisms that are found within the Mozambican informal insurance landscape. In latter sections (i.e. Section 6) we analyse the usage of a narrower set of informal insurance mechanisms as extracted from the 2009 FinScope Mozambique Consumer survey. In this section, we cite various sources including previous studies (not only limited to those found in the FinScope Mozambique survey which makes for a broader definition. When we refer to informal insurance products these may sometimes be referred to as risk mitigation mechanisms.

Social solidarity mechanisms. The majority of informal risk pooling can be attributed to family and community solidarity mechanisms operating on a structured basis and without a legal identity.[96] Examples of organised insurance activity among such solidarity groups include *xitiques*, funeral funds, and contributions towards community infrastructure or for social community events. Brief descriptions of these mechanisms are provided below.

ASCA solidarity fund. ASCAs (Accumulative Savings and Credit Associations) are informal organizations supported by NGOs that offer a "solidarity fund", a small fund constituted at the beginning of the savings cycle and used for emergency situations (i.e. illness or funeral). Rules can vary amongst groups, but benefits are typically structured as interest-free loans and do not fall within the ambit of insurance products.

Various xitique schemes (type of savings mechanisms). *Xitique rotativo* (rotatative savings schemes) and *xitique geral* (30 day duration individual savings) represent informal savings that can be redeemed in emergency situations, providing a type of insurance facility.

Often referred to as the Mozambican version of a ROSCA (Rotating savings and credit association)[97] (ICC, 2011), the *xitique rotativo* is normally found in urban and peri-urban areas, mainly in the Southern part of the country and between people that have a common social link (e.g. market place, place of work, institution, neighbours, or the same church). Contributions are normally monthly but can be made daily or semi-annually. The increased cost of living[98] is threatening the *xitique*.

The main objective of an *xitique* is to assist members in acquiring household assets, effecting home improvements and purchasing business stock. In some instances members have to pay a joining fee of around MT 100 (USD $3.70). Funds are distributed to members on a

[96] See Teyssier, 1995 and Ndione, 1992.
[97] ROSCAs are traditional savings and credit arrangements that typically consist of a group of individuals who make regular contributions to a common pool where funds are distributed on a rotational basis.
[98] Summary of Main Findings of Focus Group Discussions on Micro-Insurance, ICC commissioned work for Cenfri, December 2011.

rotational basis per month. Members also contribute an additional MT 100 to fund expenses towards the gathering which is often in the form of a party or small celebration.

Xitique geral is a pure savings mechanism managed by a "collector" (*tesoureiro* or *cobrador*) with members paying a fixed amount (the most common being MT 10 or USD $0.40) per day to the collector over a period of 30 days. The savings cycle does not need to coincide with a calendar month. At the end of the 30 day period, the depositor receives her or his money less one day of contribution to pay for the services of the collector. Members typically use this money to buy goods, cover household expenditure, pay monthly instalments on loans and cover emergency situations. Its usage also appears to be decreasing.[99]

The informal savings mechanisms are generally used to manage consumption smoothing and are not a substitute for insurance. Pay-outs happen more regularly than insurance pay-outs and savings are often not enough to cover the full financial loss.

Fundos lutuosos (mourning funds)[100] characterise informal insurance in urban areas. Provided by funeral associations with members belonging to family groups that share strong social capital, such funds can vary in size of between 10 and 34 families. They are often referred to as family *xitiques*. The funds play an important role in managing the perceived high cost of funeral expenses which includes burial and feeding of the guests. In Maputo City members pay monthly contributions of between MT 50 and MT 250 (USD $1.80 to USD $9), generally designed to cover the death of one of the contributor's partner and children (without a limit to the number). The main expense the funds aim to cover is the coffin (costing between MT 3,000 and MT 6,000). The beneficiaries do not always include parents and children over 18 years of age are expected to contribute themselves.

Teyssier (2009) points out that such a mechanism does not always provide value to the client, citing an example of a woman who received MT 300 as a funeral benefit against monthly contributions of MT 50 (USD $1.80).[101] Fraud and theft by managers of the funds also occurs.

Market funeral funds are an alternative to family funeral funds that help their members to pay funeral expenses. These on-demand funds support people affiliated by trade. In the case of death, each "member" typically contributes MT 20 (USD $0.80). If a person does not contribute, he/she is not eligible for a pay-out. Parents and children are also covered and such schemes can raise between MT 3,000 and MT 4,000 (USD $110 to USD $150). Trust in this type of scheme is considered to be strong. Members suggest that it is more difficult to cheat others as they are familiar with each other due to regular interaction at the market place. However, pay-outs are considered to be slow, often taking days or weeks after the event.[102]

Neighbourhood funeral funds. These exist in certain residential areas of Maputo province. Residents normally contribute MT 10 (USD $0.40) on a voluntary basis in the case of death of one of the residents. If residents do not have cash, they often contribute in kind (with food or firewood). The local authorities are responsible for collection of such contributions.[103] As

[99] Ibid.
[100] Mourning funds were not found within the FinScope Mozambique survey
[101][101] Based on an interview in the *Mercado de Malhazine*, 10 April 2008, Teyssier (2009).
[102] Ibid.
[103] Teyssier (2009).

in the case of the market funeral fund, this is another way of organising contributions on demand, instead of pooling up-front, thus helping to avoid fraud by the people in charge.

Informal mechanisms often represent the only option for some communities but come with multiple risks. The small sized groups do not provide for adequate risk pooling and do not fully collateralise risks. The funds are also under threat from fraud or theft by providers.[104]

Self-insurance. Some informal groups self-insure either with insurers or via "solidarity funds".

Box 5. Ophavela's Seguro "Vida e Paz"

Ophavela is the oldest and largest ASCA operator in Mozambique. With the support of Care Mozambique (an institutional partner) and co-funding from Dutch development agencies Oxfam Novib and Hivos, it recently developed a funeral self-insurance product for group members with an "insurance guarantee fund". The scheme is not underwritten by an insurer. The product costs MT 20 (USD $0.70)/month per insured person with a benefit of MT 2,000 (USD $70) if this individual dies, which is lower client value compared to Hollard's offering of a premium at MT 10 per (USD $0.30) /month for up to 8 people covered and a benefit of MT 6,000 (USD $220) for an adult. After one year, Ophavela registered 308 active clients; 82 had abandoned/defaulted and 10 were deceased.

5.2. Distribution

The three main distribution channels used are brokers, bancassurance and agents. Table 14 below shows the growth of registered intermediaries with the ISSM between the years 2007 and 2011.

As of 2011 the ISSM had registered 42 brokers, 17 agents and 249 promoters.[105] Industry consultation confirmed brokers' dominance and revealed that most companies derive in excess of 60% of premiums from brokers. EMOSE, Global Alliance and Real derive in excess of 75% of premiums from brokers. The notable exception is SIM that obtains 50% of their premiums from bancassurance. The leading brokers in the country are Alexander Forbes, AON – Corretores de Seguros, Poliseguros Corretores e Consultores de Seguros, Nacional Brokers, Glenrand MIB, Getcor – Corretores de Seguros.

Intermediaries	2007	2008	2009	2010	2011
Brokers	23	25	33	38	42
Agents	2	3	8	12	17
Promoters	36	84	249	272	294

Table 14. Growth of registered intermediaries with the ISSM (2007-2011)

Source: ISSM data (2007-2011), gathered through email consultation

Bancassurance growing to 25% of industry. Industry consultation reveals that bancassurance models are beginning to play a more important role in distribution. SIM, the market leader in terms of gross underwritten premiums, derives 50% of its business through the

[104] See Teyssier, 2009.
[105] ISSM Report 2008.

bancassurance model with BIM, a bank within the same ownership group. SIM is the largest player and therefore impacts upon these figures. Hollard's bancassurance model offers mostly embedded products but also products sold by bank employees on a voluntary basis bundled with other banking products. Global Alliance is also seeking to leverage its bancassurance potential through Barclays through which it derives 20% of its premiums.

Limited distribution through agents. According to ISSM data, there is limited use of agents in the market with only 17 registered. Based on industry interviews, it is estimated that agent business currently contributes less than 15% of premiums. Austral has leveraged agents to distribute a funeral product and has attempted to leverage them to distribute through schools, churches and women's groups but it has been largely unsuccessful. Real and other new entrants indicated that they wish to diversify their distribution by increasing the number of agents. Industry interviews indicated limited to no use of agents for traditional worksite marketing.

Limited use of microfinance institutions ("MFI") and other client aggregators. As revealed in the product matrix in Table 34, Appendix I: where there are examples of insurers partnering with select MFIs to distribute pilot microinsurance products. These include Hollard's partnership with Banco Oportunidade, which should be considered as bancassurance, and EMOSE's partnership with Hluvuku. At present these partnerships are limited in terms of number of policies sold. There is also some evidence of distribution through other groups. Table 34, in Appendix I: reveals an EMOSE funeral product that is distributed through churches and family groups. However, the numbers as shown are negligible. There are no insurance products sold to clients of mobile network operators yet but insurers are in discussion with mobile operators.

5.3. Microinsurance products on the market

The microinsurance-type products on offer in Mozambique are detailed in Appendix I: .

Credit-life and funeral products predominate. Microinsurance type products on the market consist mainly of funeral and credit life products. There are examples of some providers offering personal accident, income protection and hospital cash plans, but these are limited. Industry interviews revealed some initial attempts at innovative microinsurance products such as an agricultural insurance pilot for borrowing farmers and a non-life insurance package aimed at the small to medium enterprise market.

Several products still in pilot stage. None of the products listed in Table 34 in Appendix I: have been in the market for more than three years. Beyond funeral and credit life, all products are still in pilot phase and as a result, take-up is limited. This reflects the lack of maturity in the microinsurance market.

All credit life products are offered on a compulsory basis. Our research shows that all credit life products in Mozambique are offered on a compulsory basis.

Credit life typically covers death only. While the typical credit life product offered by formal insurers only covers the outstanding loan balance on death of the borrower, there are some examples of innovative additions to the standard credit life product. These include Hollard's package of funeral cover for the borrower's family with credit life cover for the duration of

the loan being expanded to include disability and retrenchment cover (enhanced or extended credit life).

Credit life premiums reflect limited competition. Premiums can vary considerably, ranging from 1% per annum to 2.5% and even higher depending on the benefits provided and the age of the borrower. While premiums may be driven by the risk profile of specific groups and product details, the compulsory nature of these products combined with the filter applied in respect of the provision of credit, would suggest that premiums are still too high.

Risk of unfair practices. In addition, premiums are typically paid in a single instalment upfront and capitalised to the loan. The result is even higher premiums due to the interest charged. This also undermines competition and choice as the borrower cannot later switch to the product of another insurer.

Funeral products are similar across industry. Funeral products tend to be more standard across insurers than credit life products. Typically, cover is provided to the immediate family (member, spouse and children) and sometimes extended to cover parents and parents-in-law. Benefit levels vary by age of the person insured, from MT 3,000 (USD $110) for stillborn children to MT 50,000 (USD $1,800) for adults. The premiums paid depend on age and gender but can range between approximately MT 10 (USD $0.30) /month and MT 190 (USD $7)/ month. Funeral products are generally distributed via bancassurance models, with some evidence of insurers making use of brokers and even their own agents.

5.4. Take up of formal and informal insurance products

In this section we will look at the penetration of both formal and informal insurance products based on analyses of the FinScope Mozambique survey's data set.

Box 6**Error! Reference source not found.** below provides information concerning the aggregated variables that were created for the purposes of this study. The FinScope Mozambique survey has a number of insurance variables which were aggregated to create a more meaningful picture with regards to insurance penetration in Mozambique.

Box 6. Note on aggregated variables used to analyse formal insurance penetration

In order to create a useful picture concerning insurance usage, various insurance lines were combined to create aggregated product categories.

- **Life insurance**: employer covered funeral, personal funeral and credit life.
  - **Credit life insurance**: is credit life insurance only
  - **Life**: is life insurance only
  - **Funeral**: is personal funeral insurance and/or employer covered funeral insurance.
- **Asset insurance**: home owners insurance, householders insurance and all risks insurance for specific assets, third party motor and comprehensive motor insurance combined.
  - **Home owners and all risk**: home owners insurance (contents and/or building), household insurance (contents) and all risk insurance for specific assets.
  - **Vehicle**: is comprehensive motor insurance as well as compulsory third party
- **Health related insurance**: hospital cash plan, employer covered medical aid, personal medical aid, employer covered accident, personal accident and disability insurance.
  - **Hospital cash plan**: hospital cash plan only
  - **Accident and disability**: personal accident insurance, disability insurance and employer covered accident.
  - **Medical aid**: personal medical aid scheme and employer covered medical aid.
- **Other insurance**: professional liability cover, pension or retirement fund assurance, travel insurance and other insurance.
  - **Pension or retirement**: is pension or retirement assurance only
- **Informal risk groups**: include family associations and funeral associations.

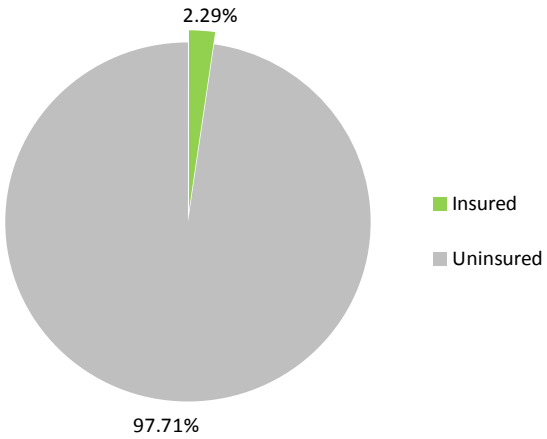


Figure 10. Overall insurance penetration

Source: FinScope Mozambique, 2009

Insurance usage lower than other countries. Figure 10 above shows overall insurance penetration in Mozambique. 2.3% of adults in Mozambique have some form of formal insurance which is comprised of insurance products provided by insurance companies and

insurance cover provided by the INSS. Mozambique's insurance usage is lower in comparison with other African counterparts - 49.7% in South Africa, 22.8% in Swaziland, 19% in Zimbabwe and 6.3% in Tanzania.

Box 7. Interpretation of insurance usage as per FinScope Consumer survey

The **FinScope Mozambique** interrogates insurance usage with respondents. Initially respondents are asked if they use **any** insurance products, soliciting a yes or no response (as shown in Figure 10) The survey then asks which specific insurance products they use (i.e. health-related or asset insurance, as per Figure 11). However, respondents may have more than one insurance product thus resulting in double counting.

Figure 11 below shows insurance usage in Mozambique according to various aggregated insurance lines.

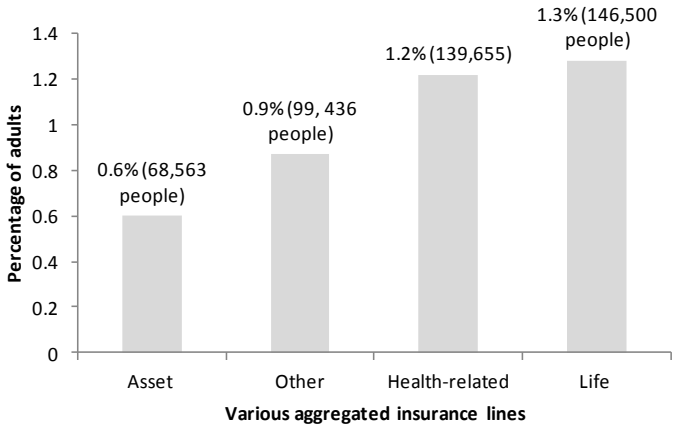


Figure 11. Insurance usage in Mozambique[106]

Source: FinScope Mozambique 2009

Life and health related insurance dominate. According to FinScope Mozambique the life and health related insurance product categories have the highest levels of usage while asset insurance has the least take up. 1.3% of adults (146,600 people) have some kind of life cover.[107]. While asset insurance remains the largest category in terms of premium volumes and values, life and health-related insurance are reaching the largest number of individuals. 0.6% of adults (68,563 people) reported to have some form of asset cover (homeowners' and all risk insurance and all motor cover). The bulk of this is made up of comprehensive motor insurance.

[106] Figure 11 measures usage according to aggregated insurance lines.

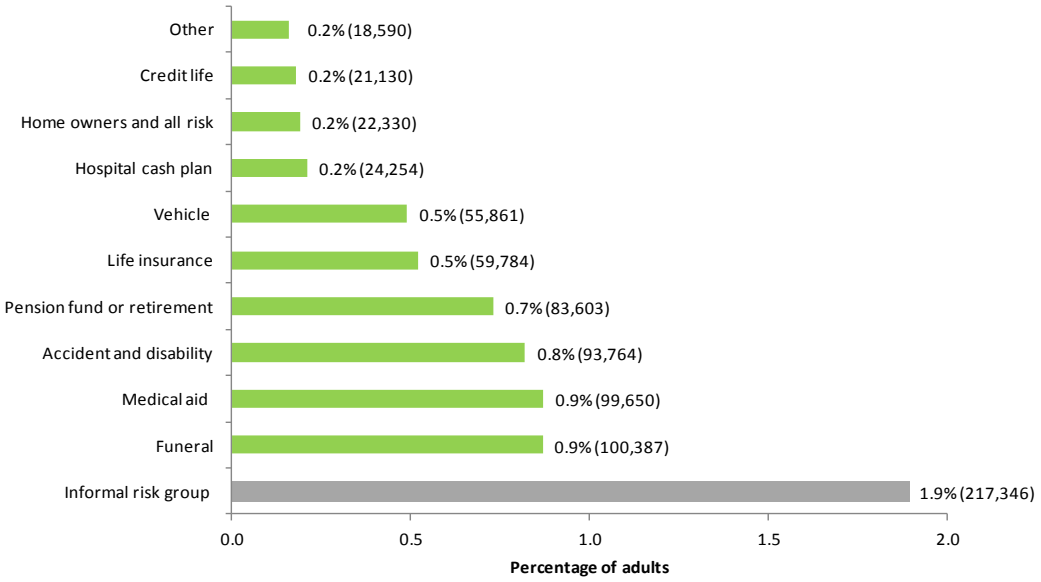


Figure 12. Formal insurance take up in comparison with informal insurance take up

Source: FinScope Mozambique, 2009

Medical aid and funeral insurance dominate. **Error! Reference source not found.**Figure 12 above shows formal insurance take up across various lines of insurance in comparison with informal risk groups. In terms of formal insurance, funeral has the highest level of take up with 0.9% of adults (100,387 people) having funeral cover. Like other countries in SADC, funeral insurance usage is a priority due to the cultural significance of being appropriately prepared for burial. Medical aid had the second highest level of take up with 99,650 people making use of the product. Interestingly only 0.2% of adults (21,130 people) have credit life cover. This may be due to low levels of income, under reporting or the fact that some respondents may have credit life insurance without being aware of it.

As expected informal risk groups surpass formal insurance take up. 1.9% of adults (217, 346 people) are members of informal risk groups, double the number with formal funeral coverage.

Insurance usage and income

In Figure 13 below we breakdown insurance usage across the various income bands used in FinScope Mozambique. This allows us to gain a holistic comparison of the income distributions of those who voluntarily purchase insurance (excluding INSS), those with INSS cover and those who are uninsured.

38% of those with voluntary insurance earn less than MT 50,000 per annum (approximately USD $5 per day). In **Error! Reference source not found.**Figure 13 below we analyse the income distributions of those who voluntarily purchase formal insurance (excluding INSS cover), those who have INSS cover, and those who are uninsured. We use three corresponding strands in the diagram, representing the income levels. As expected, those who have voluntary insurance appear to be more affluent than those who have INSS

insurance and who are uninsured[108]. While comparisons are being made based on percentages within the different groups, the uninsured group has the highest absolute numbers.

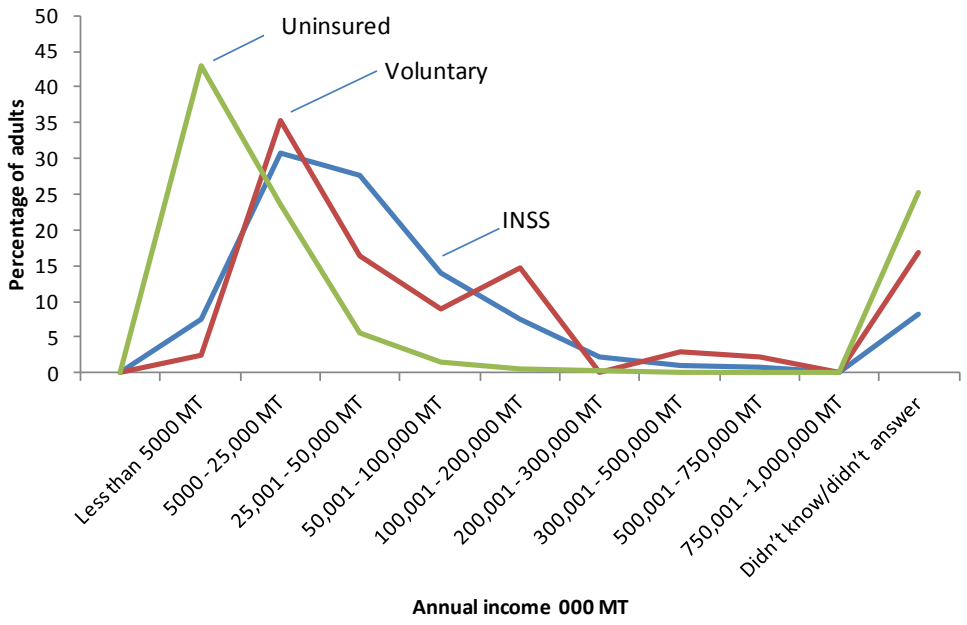


Figure 13. Income distribution of the voluntarily insured, the uninsured and those with INSS cover

Source: FinScope Mozambique, 2009

72% of the uninsured earn less than MT 50,000 (USD $5 per day) per annum. 43% (c. 4.8m people) of the uninsured fall into the income band of less than MT 5,000 per annum (USD $0.50).

Figure 14 below shows usage of aggregated insurance product lines across income bands.

Bulk of low-income penetration achieved by life in particular funeral and credit life. For the purposes of our research, the low-income segment would be defined as individuals who earn MT 25,000 or less per annum (less than USD $2.50 per day). The bulk of the low-income insurance penetration is achieved by life cover comprised mostly of funeral and credit life.

Motor vehicle insurance has some low-income concentration. Interestingly, motor vehicle cover seems to have a low-income concentration as 33% of those who have motor vehicle insurance (18,179 people) fall within the MT 5,000 to 25,000 per annum income band (less than USD $2.50 per day) and 2% (1,176 people) of those with motor vehicle insurance earn less than MT 5,000 per annum. This phenomenon can possibly be explained by an influx of cheap motor vehicle imports from Japan and Malaysia.

[108] It is assumed those who make use of voluntary insurance products have the disposable income to do so.

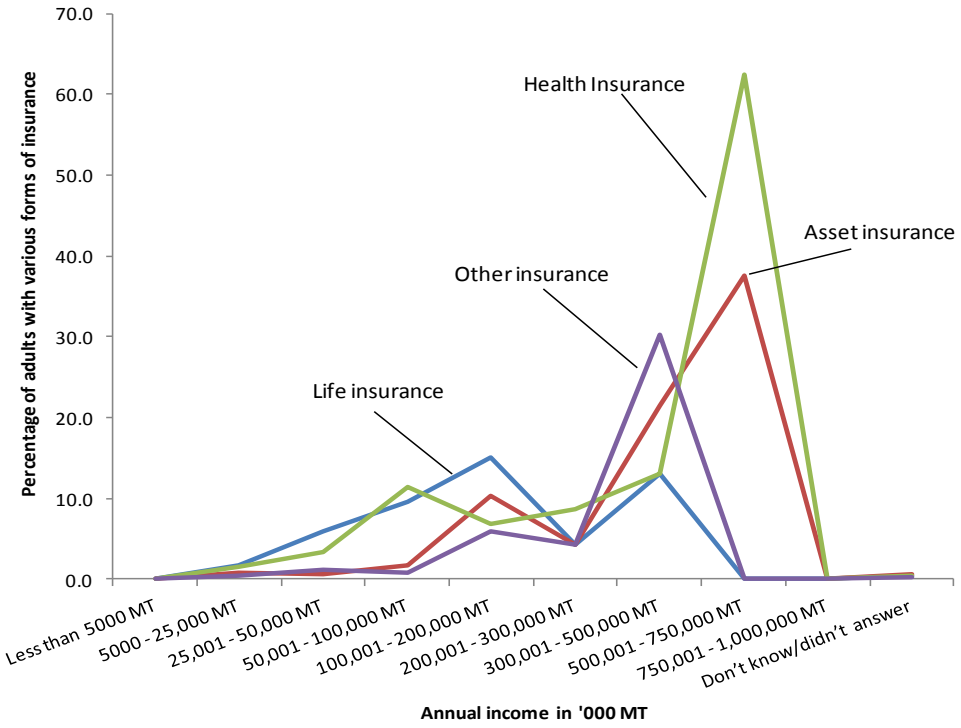


Figure 14. Insurance penetration across various income brackets

Source: FinScope Mozambique, 2009

Below we unpack the specific product types in the broader product categories.

Life, Retirement

Figure 15 below shows formal life, pension and retirement fund insurance and informal insurance take up by income band.

It renders the following insights:

- Formal funeral insurance usage correlates with income.
- Informal insurance usage does not necessarily correlate with income. Informal usage is highest within the MT 300,000 to 500,000 per annum (USD $30 to USD $50 per day) income band, which may be considered medium income.
- Pension and retirement fund insurance is used by the wealthier as its usage peaks at the MT 750,000 to 1,000,000 per annum (USD $75 to USD $100 per day) income band. These are potentially people who have been employed within the formal sector.

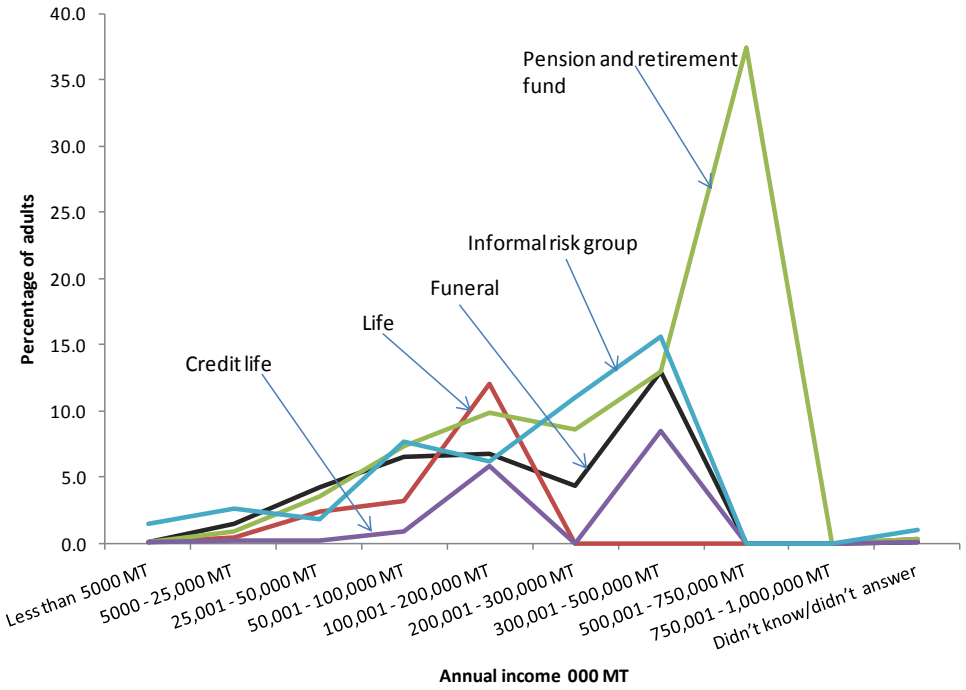


Figure 15. Life insurance take up within different income bands

Source: FinScope Mozambique, 2009

For additional FinScope Mozambique analyses concerning:

- Health and asset insurance penetration across income
- Insurance penetration broken down across various age brackets
- Insurance penetration broken down according to the various provinces,

Please see Appendix J: .

6. Understanding the potential microinsurance customer

In this section, we summarise the features of the low-income market as captured in the findings of the 2009 FinScope Mozambique survey. In addition, we also draw on insights gained from a series of nineteen focus group discussions[109] (henceforth referred to as FGDs) which allow us to analyse the Mozambican low-income market's experience with managing risk, as well as their perceptions of, and demand for insurance products.

6.1. Profile of the market

In this section we look at the general profile of the population through a comparison of insurance penetration with that of other financial services. The basis of our comparison is an

[109] Focus group discussions are a qualitative research tool. Small groups are tested on their views on a certain matter, with a professional moderator. These are used to explore how the low-income market deals with risk and their perceptions and usage of formal and informal insurance products.

analysis of financial services usage *within* the various income bands. This methodology differs from Figure 13above which compares voluntary and INSS usage *across* various income bands, that is, dividing those who are insured across the various income bands, e.g. 22% of those who are insured fall within a certain income band.

6.1.1. Comparing insurance penetration to other financial services usage and cell phone ownership across income

Figure 16 below shows formal and INSS insurance penetration within the different income bands in comparison with bank account ownership, cell phone usage, MFI membership and the use of informal insurance (informal risk groups)[110].

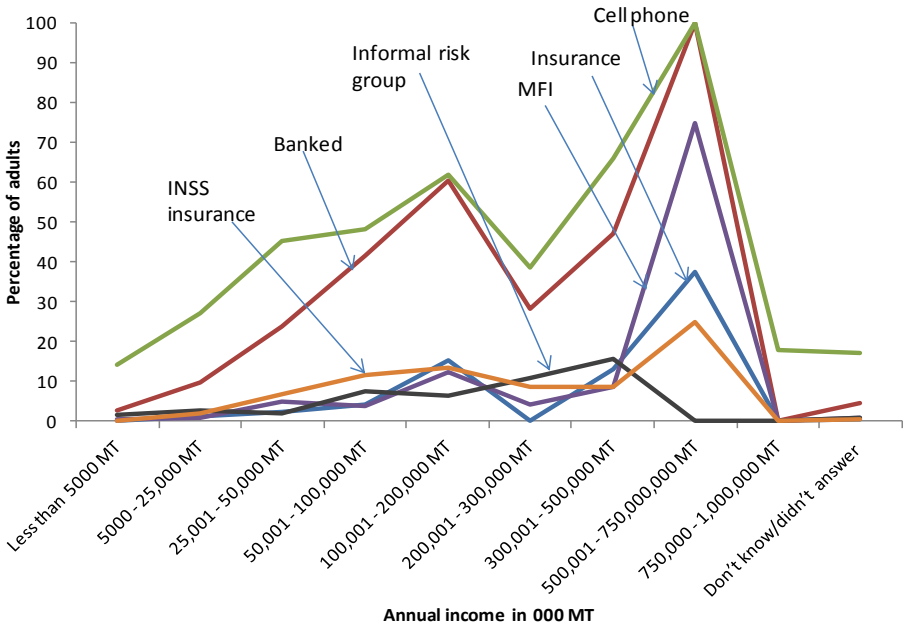


Figure 16. Comparing insurance usage to cell phone, formal insurance, informal financing mechanisms, MFI membership and bank account ownership across income bands

Source: FinScope Mozambique, 2009

- **Financial services usage correlates with income.** Financial services penetration including formal insurance, INSS insurance and even the use of informal risk groups correlates with income. The MT 750,000 to 1,000,000 (USD $75 to USD $100 per day) per annum income bracket has the highest level of MFI membership, bank account ownership and formal insurance usage within any income band.
- **INSS insurance has low penetration overall.** Overall insurance provided by the INSS achieved low levels of penetration across all income brackets. Interestingly INSS

[110] Informal risk groups are informal risk pooling mechanisms used to finance funeral expenses. [111] Financial impact of various risks measures the amount of financial resources and potentially income lost due to that particular risk event.

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insurance penetration peaks at the MT 750,000 to 1,000,000 per annum (USD $75 and USD$ 100 per day) income bracket.

- **Formal insurance providers penetrate the high-income market.** - Formal insurance provided by insurance companies achieved a higher level of penetration within the high-income market. In addition, formal insurance usage peaks at the MT 750,000 to 1,000,000 per annum) income bracket.
- **Banks have universal penetration**. Banks have the second highest level of financial services penetration across all income levels except in the lowest income bracket (less than MT 5,000 per annum or less than USD $0.50 per day).
- **MFIs have high degree of penetration among the high income**. MFIs have a high degree of penetration amongst the high-income category. 75% of adults in the MT 500,001 – 750,000 (USD $50 to USD $70 per day) income category reported to be members or clients of an MFI.
- **Cell phone has the greatest level of penetration -** above all financial services across all income categories.

  Use of informal risk groups within even the higher income brackets. Informal risk group usage peaked at the MT 100,000 to 200,000 (USD $10 to USD $20 per day) per annum income group. Unlike other countries, informal insurance usage within the low-income market seemed fairly low. Only 4.7% of adults within the less than MT 5,000 per annum (less than USD $0.50 per day) income band indicated they make use of informal risk groups. On the other side of the spectrum, 25% of adults in the MT 500,001 – 750,000 income category (USD $50 – USD $75 per day) reported they make use of informal risk groups.

6.1.2. Comparing insurance penetration to other financial services usage and cell phone ownership across the different provinces.

Figure 17 below shows cell phone usage and financial service penetration within the different provinces in Mozambique.

- **Dominance of Southern provinces**. Figure 17 below shows that formal and informal financial services usage and cell phone ownership increases as one moves further South in the country towards Maputo Province and Maputo City. It is clear that the Southern provinces of the country namely Sofala, Inhambane, Gaza and both Maputo city and Maputo province have the highest levels of cell phone ownership and formal and informal financial services usage. Bank account ownership and MFI membership have some penetration outside of Maputo city and province but take up is still limited.
- **MFI and insurance low across all provinces**. MFI membership, INSS insurance and formal insurance usage had the lowest levels of penetration across the provinces. In terms of absolute numbers, these financial services achieved much lower take up in comparison to the other financial services.

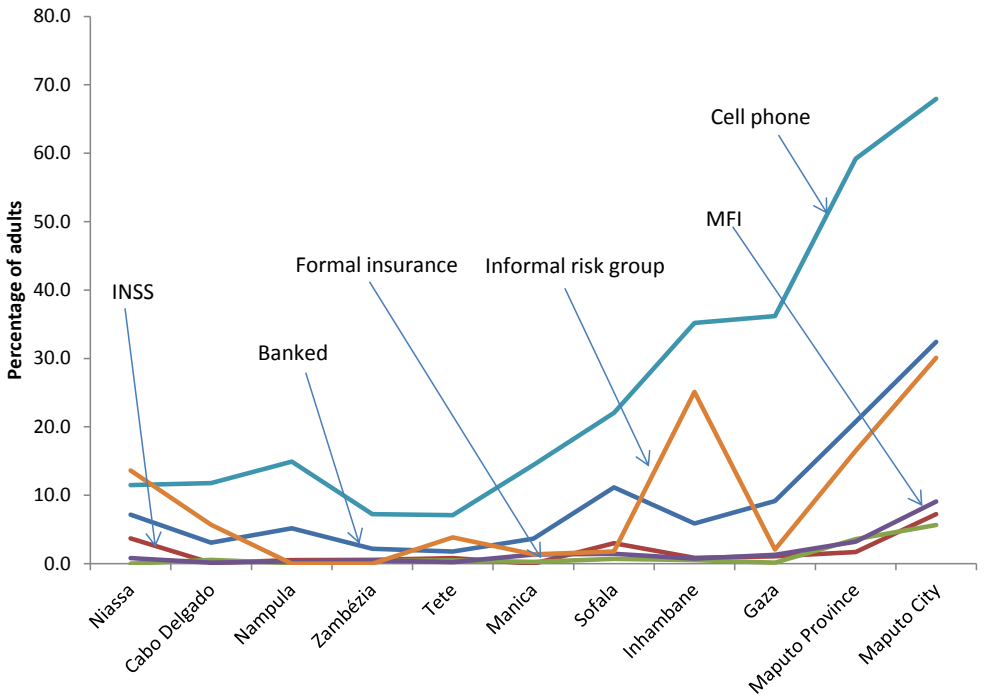

Figure 17. Comparing insurance usage to cell phone, formal insurance, informal financing mechanisms, MFI membership and bank account ownership across different provinces.

Source: FinScope Mozambique, 2009

Figure 18 below compares the profile of the insured with that of the uninsured.

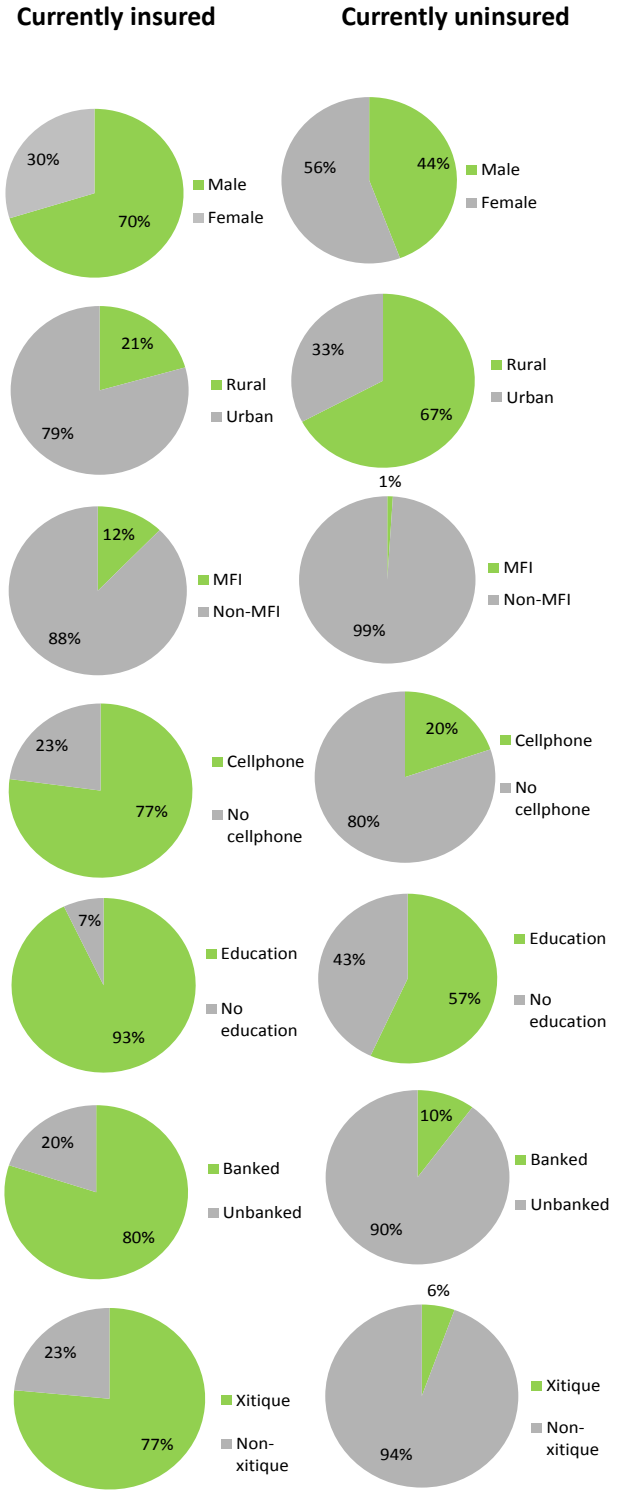

Figure 18. Profile of the insured

Source: FinScope Mozambique, 2009

NOTES

The **insured** are more likely to be male (70%) than female (30%).

The **insured** are far more likely to live in urban areas (79%) than their uninsured counterparts (33%).

12% of the **insured** are also members of MFIs. This is over-represented relative to 1% of all adults who are members of MFIs.

21% of all Mozambicans own a cell phone. 77% of the **insured** own a cell phone while 76% of all cell phone owners have insurance. The **insured** are more likely to have some form of education (93%) in comparison with the **uninsured** (57%).

Approximately 12% of all Mozambicans are banked. The **insured** are more likely to be banked (80%) in comparison with the **uninsured** (10%). In turn, 22% of the banked population have some kind of insurance.

Approximately 6% of Mozambicans belong to a xitique but 77% of those who are **insured** belong to a xitique.

6.2. Risk experience perceptions of the low income market

Risks vary according to income source and livelihood category. While there are a number of general risks that applied to all respondents (illness and death), the FGDs revealed that certain risks are more prominent for particular livelihoods categories.

- **Risks faced by civil servants.** Civil servants mentioned that they face the risk of work related illnesses in particular blindness due to the use of chalk.
- **Risks faced by MFI clients.** Defaulting on MFI loans was mentioned as a major risk as this often results in the loss of property.
- **Risks faced by farmers.** Farmers mentioned loss of produce, diseases affecting livestock, natural disasters, weather phenomena and pests as the main risks that they faced.
- **Risks faced by informal sector traders.** Informal traders cited theft of stock, fire, road accidents and losses in business as their main risks.

Illness, death and bankruptcy cited as the top three risks across all respondents. While bankruptcy is a risk that was mentioned in the FGDs, it is one that is uninsurable and cannot be mitigated by formal insurance products.

- 90% of participants ranked **illness** as the greatest risk in terms of concern followed by financial impact for 75% of participants. Illness often requires respondents to leave their income producing activity in the case of their own illnesses or when a family member is sick in which event they may be required to care for the family member. In addition, large sums of money are required for unexpected payments for medication and hospitalisation and transport to reach hospitals.

"We don't know how long we will stay without work". "With the disease, everything stops." Informal traders, Xipamanine Market

"Disease is also a different thing because it is not similar to a mechanical failure of a car that we can replace parts to get the car repaired." MFI Client, Catemebe

"I would say that illness concerns us more. We prefer death because when it happens we have a 'one time' expense. With illness however, a person can be ill over a year and the loss is higher than with death. With death we will not let people remain unburied because anyone can help us but with illness, people stop helping because the debt gets big." Group of farmers at Infulene Valley

"There are many diseases: HIV-AIDS, malaria and now is the time for cholera." MFI client, Machava

"You only spend once when it comes to death, while disease can last one, two, or three years." Informal trader, Mercado Central

"When we are hospitalised we cannot run our business." Informal trader, Bobole Market

"Imagine that someone only sells three products. If she/he gets ill and the income is only MT 500 and the profit is MT 300 this amount is not enough to pay for all the expenses as apart from medicines, we have to buy juices and fruit to eat well." MFI client, Xipamanine Market

- Participants ranked **death** as the second greatest risk they face in terms of concern, frequency and financial impact[111]. Large sums of money are required for funeral expenses (which informal risk groups often do not cover in whole) and death is acutely felt when it results in the loss of the breadwinner.

When a family member[112] dies, because of lack of funds, the family relies on me to pay the expenses as I am the only salaried worker." Primary School teacher, Manhiça

"I can go to a pharmacy and buy one medicine, while I need two or three, but with death I cannot make half of a coffin." Informal trader, Maquinino market

"If a family member dies, I use my money or get a loan from the bank. However I run into the risk of the bank repossessing my house as a consequence of defaulting on my loan." MFI client, Xipamanine market

"To feed the family that gather for the funeral is less important. The most important thing is to bury the dead." MFI client, Machava

"The funeral costs are high and apart from that we have to feed the family that participate in the funeral." A Community member at 25 de Junho

"The problem is that if I get sick, I will spend MT 100 or 200 (USD $ 3.65 to USD $7) and it is not a big problem. But, when someone in my family dies one day, I will spend MT 10,000 (USD $365) at once and I can even borrow money to cover the funeral expenses."

A coffin in this area costs MT 4000 to 6000. (USD $146 to USD $219) A standard coffin normally costs MT 4500, but you cannot buy a coffin without buying sugar or food to take home."

"People pay MT 1,000 per family and the pay-out is only MT 2,500 which is not enough for a coffin." MFI Client, Catemebe

"I have life insurance with Millennium BIM. I rely more on Millennium BIM than my xitique because there are instances when something happens and the group cannot afford to pay the expenses. There is a fixed pay out predetermined by the group to cover certain events. However, this amount does not cover all the expenses. Insurance covers me and two members of my family. I pay MT 43 (USD $1.50) per month for my life insurance cover. In the event of death, my family receives MT 12,000 (c. USD $440)."

- **Bankruptcy** was ranked as the third greatest risk.

Even if you manage your business well, there are times when you don't sell anything. You buy the stock and it just stands there looking at you and you go bankrupt." MFI client, Xipamanine

"Bankruptcy can also cause disease and even death." Informal trader, Maquinino market

[111] Financial impact of various risks measures the amount of financial resources and potentially income lost due to that particular risk event.
[112] He was referring to the large family not only the members of his household

"…the natural disasters often lead to bankruptcy as everything is destroyed" A farmer, Infulene Valley

- **Accidents** were ranked as the fourth greatest risk. Other risks that were mentioned were **theft, fire and disability.**

"I was in an accident while travelling in a chapa" (commuter omnibus) on April 6 this year. I got injured and I had to go the public health centre to be treated, but they did not have any medical supplies and they could not do anything to help me. I had to travel to a private health centre (Centro de Saúde Moyo). I only had MT 200 (USD $7) and the medical expenses there came to MT 700. I returned to the public health centre and they only washed the wounds with disinfectant substance and put a bandage around the injured area without any type of medication. This means that without money, we cannot get proper medical treatment. At the private health centre, they prescribe injections, antibiotics, however the total cost of these is MT 700 (USD $25). I resorted to borrowing money in order to receive proper treatment from the private health centre." Female church member, Maputo

6.3. Informal insurance or risk coping strategies

There are various informal risk coping strategies (also referred to as informal insurance) that are used in Mozambique. In this section we discuss the informal risk coping strategies that were found during FGDs, as well as those that FinScope Mozambique identified.

Borrowing from family and friends is the predominant risk coping strategy. According to FinScope Mozambique, between 12% and 17% of respondents noted that they will borrow from family and friends in the event that (1) the main wage earner dies or is in an accident that makes him/her incapable of working; (2) other members of the household are involved in an accident or become seriously ill; (3) their home is destroyed by a flood or fire. In the FGDs, loans from friends and family were also cited as one of the most predominant ex post risk coping mechanisms. In some instances, these loans come with conditions or interest. While borrowing from money lenders was mentioned as a risk-coping strategy in the focus groups, few reported using it as a risk mitigation mechanism in the FinScope Mozambique survey. This may reflect that respondents are reluctant to admit to using money lenders and suggests that this could be understated in the FinScope Mozambique results.

Disposal of assets is the second most popular risk coping strategy. Findings from FinScope indicate that the selling of assets and disposal of livestock is the second most predominant risk coping strategy. Between 7% and 12% of respondents noted that they will sell assets to cope if (1) their homes are destroyed by fire or flood; (2) they face a drought; (3) members of the household are injured or seriously ill. Responses from focus groups also indicated the selling of household assets as a predominant ex post risk coping strategy.

Minimal responses for using formal insurance as a risk coping strategy. Less than 0.5% of respondents noted that they will use formal insurance to cope with any of the risks mentioned. This is low but perhaps in line with the current level of insurance penetration.

Informal insurance. FinScope Mozambique and the FGDs confirmed the use of some informal mechanisms to mitigate risk. Some of these are akin to insurance (see 5.1.4 above).

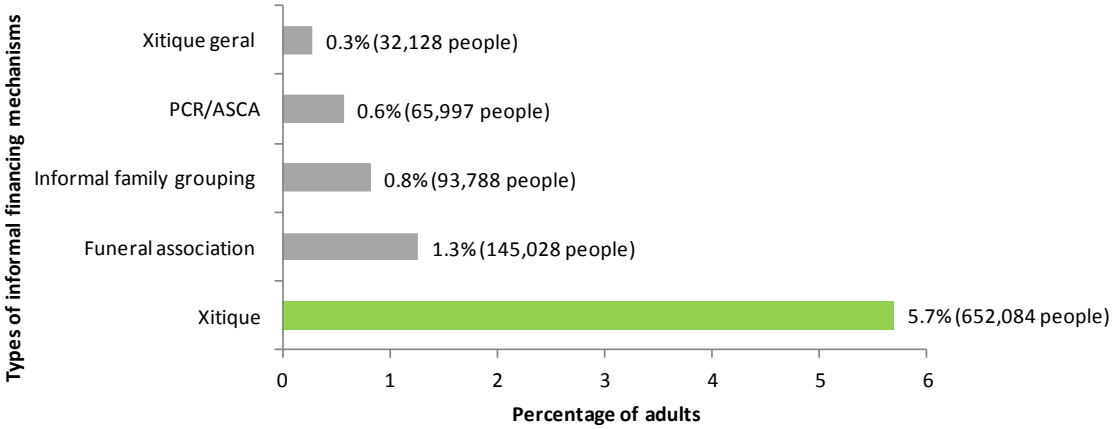

Figure 19. Use of various informal financing mechanisms

Source: FinScope Mozambique, 2009

7.4% of adults (843,611 people) report to be a member of at least one informal financial group. As seen in Figure 19 above, the most predominant informal risk coping strategy is xitique with 5.7% of adults (652,084 people), followed by funeral association 1.3% of adults (145,028) and informal family groupings[113] 0.8% of adults (93,788 people). In addition, 2.6% of adults (292,670 people) indicated they are not members of a funeral association but are covered by someone else's membership.

1.9% of adults report to be members of informal risk management groups. While *xitiques* and ASCAs may offer some risk cover mechanisms, informal family groupings and funeral associations are explicitly focused on risk with 1.9% of adults (217,346 people) belonging to either one of these. Even if only considering this narrower group, membership exceeds current formal product take-up.

Informal insurance and income

Figure 20 below shows informal financial services[114] usage within the different income bands.

- **Funeral association penetration within the high income market**. Funeral association membership peaks within the MT 500,001 – 750,000 per annum (USD $50 to USD $75 per day) group. This highlights that even those individuals who are considered high income also make use of informal financing mechanisms, especially funeral associations.
- **Xitique showing some low-income penetration.** There is xitique penetration within the low-income group i.e. the less than MT 5,000 per annum (less than USD $0.50 per day) income bands and MT 5,000 to 25,000 group (USD $0.50 to USD $2.50).

[113] Also referred to as a family association
[114] As defined within the FinScope Mozambique 2009 survey

- **Xitique geral, informal family group and ASCA have a flat profile across all the income bands.**

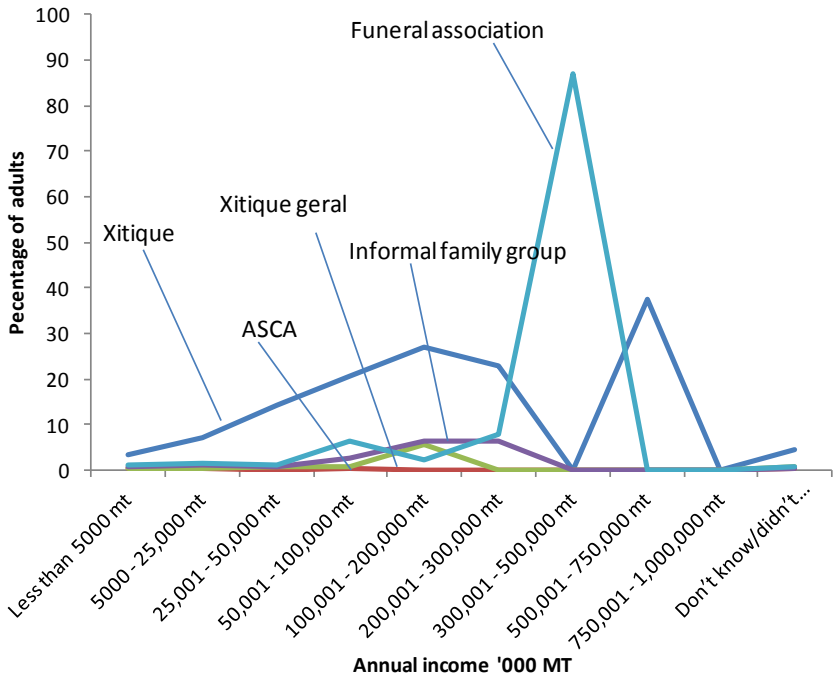

Figure 20. Informal financial mechanisms across different income bands

Source: FinScope Mozambique, 2009

Informal insurance and age

Figure 21 below shows the usage of informal financing mechanisms within the different age bands.

- **Xitique membership is highest within the 30 to 34 years age band**. This potentially highlights the various life cycle stages within the different income bands. Xitique has the highest level of penetration across all age bands.
- **Xitique geral** has the lowest level of penetration across all age bands.

- **ASCA** usage appears to increase with age.

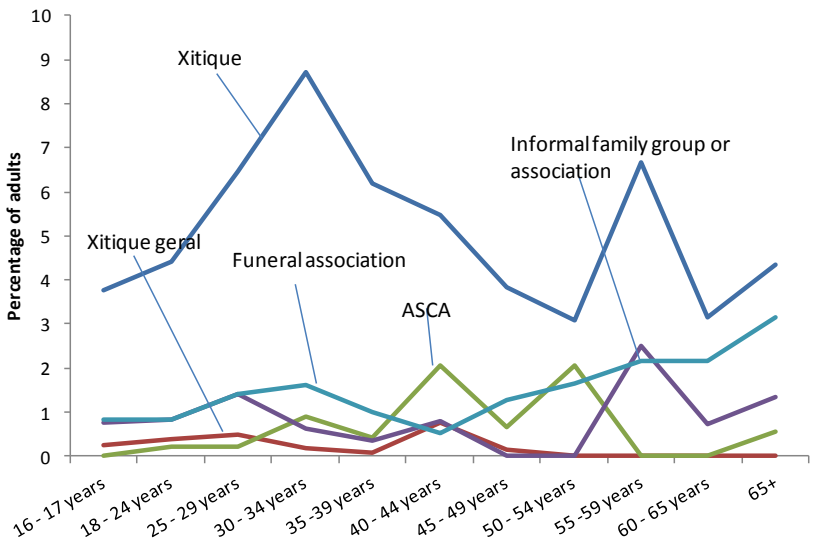

Figure 21. Use of informal risk coping mechanisms within different age bands

Source: FinScope Mozambique, 2009

Multiple group membership

More than 30% of adults belong to more than two informal risk sharing mechanisms. As regards risk management groups, 8% of adults reported to be a member of more than one funeral association and 12% reported to be a member of more than one informal family group. It is interesting to note that fewer people are members of multiple risk management groups than of savings groups.

Multiple membership driven by risk perception of groups and need for cover. Table 15 below indicates that respondents join multiple groups to more appropriately manage their risk because they do not feel one group is sufficient.

Reason for multi-group membership	As a percentage of those who use informal financing mechanisms
It reduces my risk so that I don't lose all my money in one group	9.0% (76,698 people)
The cycles meet my needs because the money comes in at different times	5.3% (44,815 people)
To get more money	6.3% (42,990 people)

Table 15. Reasons for why respondents are members of more than one informal financing group

Source: FinScope Mozambique, 2009

Provincial informal insurance usage

Xitique membership concentrated in urban areas and South of country. 39% of members are found in Maputo City and Province and FGDs also confirmed that *xitiques* are predominant in the southern parts of Mozambique. FinScope Mozambique shows that 56% of *xitiques* are in Inhambane, Gaza, Maputo provinces and Maputo city.

Contributions to informal risk groups

Average funds deposited vary. Table 16 below shows the amount of the last deposit made by focus group members. Approximately 63% contributed less than MT 500.

Contributions to family associations may range from between 50MT to 2,000MT (USD $1.80 to USD $73) per family with benefits ranging from 3,000MT to 60,000MT (USD $110 to USD $2,190).

Amount contributed by each member monthly	
50 MT or less	19.38%
50 to 100 MT	13.29%
100 to 200 MT	11.77%
200 to 500 MT	18.92%
500 to 1000 MT	20.58%
1000 MT and above	16.06%

Table 16. Amounts contributed by members of informal financing mechanisms or groups

Source: FinScope Mozambique, 2009

Borrowing from informal risk groups

According to FinScope, 17% of those who borrow from informal groups do so to manage unexpected risks. Only 1.8% (c. 15,400 people) of those who belong to informal financing groups have borrowed money from the group. Of those, 17.3% indicated they borrow in order to pay for an unexpected event like sickness or death.

Reasons for using various informal risk groups

Xitique

Box 8 below contains quotes from FGD respondents concerning xitique membership. These quotes highlight:

- The contribution *xitique* pay outs make to the survival of members;
- Problems concerning *xitique* membership including the death of the member in charge of the group's funds.

Box 8. Voice of FGD respondents concerning *xitique*

"If you know that you have committed yourself to this "xitique" group, you have to borrow money from a friend to avoid losing your place."
Farmer, Vale Infulene

"The police do not like xitique. They say we have to put our money in the bank. The government also says the same."
Informal trader, Manhiça market

"In this area this (xitique) does not exist, only in Beira. This is a thing for people from the South."
Farmer, Mafambisse

"The truth is we have all survived because of xitiques. At first we tried farming in order to make some money but we only made 50 or 60MT per day and sometimes 200 or 300MT. I was struggling to survive and I had to gather with my friends to form a xitique where we started to contribute 100MT, 100MT, 100MT each."
MFI client, Boane

"I use it to pay household expenses or something else and I also buy cement in order to fill the holes of the roof of my house. I also deposit some money at the bank to provide for my future."
Female, Matola

"*Our treasurer died and she had deposited our money in the bank. Unfortunately her family did not withdraw the money in order to return to people."*
Informal trader, Manhiça

Xitique geral

"…when you pay 50 MT (USD $1.80) daily, at the end of the month you have 1,500 MT (USD $55) .You use the money to buy a bag of rice, or 2 litres of oil, or buy energy or water. And you have to spare 50 MT to pay for an emergency… it does not mean that this amount is enough, but it is better than nothing…"

A vendor from Xipamanine market

Box 9 below contains an interview from a xitique geral collector. Interesting and high level insights from this interview include:

- Clients can pay into the xitique geral easily but struggle to withdraw their funds;
- There has been a decline in the average amount of money deposited;
- People often withdraw their savings prior to the end of their cycles;
- Xitique geral is more of a savings mechanism than a risk coping strategy.

Box 9. Discussion with xitique geral collector, Xipamanine Market

During the FGDs consultants had the opportunity to interview one of xitique geral collectors (often referred to as a "tesoureiro" or "cobrador") claiming to have more than 1,000 clients.

According to the collector, the most common amount deposited by her clients is 10 MT per day although a few clients deposit more than this amount. The collector also said that "A few years ago most people deposited 100, 200, 300 MT on a daily basis" and that these amounts have declined. Further, the collector stated that the number of people using xitique geral as a savings mechanism has also declined.

During the interview several clients came to deposit their money while others wanted to withdraw their savings. Those that wanted to deposit did so without any problems. However, those that were claiming their savings did so with difficulty as they were informed that their funds were unavailable and they were asked to return in two days or a week later.

One client wanted to claim his savings just eight days after the commencement of his savings cycle. The client indicated that he did not have the funds to contribute on a daily basis for an additional 22 days. The collector explained that it is becoming more and more common for clients to request their savings before the end of the 30 day cycle, often because of an emergency or because people are not able to deposit the agreed amount on a daily basis for 30 days.

Regardless of when clients claim, they are still required to pay one day's worth of savings to the collector as a service fee.

The collector indicated the most of her clients use their savings to buy land, fund the building or improvements of their homes, or pay for weddings or other celebrations. At times, clients use their savings just to accumulate the money that they will use as contributions to a "normal" xitique.

Source: ICC, 2011

Informal family groups (a conta da familia), or family association

Box 10 below contains quotes FGD respondents concerning family association membership. From these quotes we are able to make the following high level observations:

Family associations are not always properly organized;

- There are some family associations that open a bank account for their group;
- Members of a family association do not always receive their pay-outs immediately;
- There are varying levels of pay-outs among different family associations.

Box 10. Voice of FGD respondents concerning family groups or associations

"In my family association, money is not always paid out when the death occurs, but only after the funeral. The family should help the bereaved family by paying some money soon."

AVIMAS member, Maputo

"I do not know if it was the fact that the family was badly organized or bad relationship within the family but I did not have a good experience with my family group."

MFI Client, BOANE

"In our family group there are four people that are responsible for our family group's bank account. We only withdraw money when there is a death in one of the families. In the case of death, each family receives 10,000MT."

MFI Client, Boane

"There are fifteen members in our family association. The group has agreed that a person gets 60,000 MT to buy a coffin when death occurs. When there is marriage in any of our families, we also receive 3,000 MT to purchase a gift."

Female, Matola

Market (informal trader) funeral associations

FGD respondents referred to varying levels of sophistication within funeral associations. In one instance, a respondent mentioned he was a member of a funeral association that had a secretary and treasurer. The only complaint FGD respondents had concerning funeral associations was that they only received funds days or even weeks after the death.

Box 11**Box 11** below contains quotes from FGD respondents concerning funeral associations. From these, we are able to draw the following high level conclusions:

- There is some flexibility concerning the amount to be contributed when a death occurs;
- Some funeral associations have a bank account.

Box 11. Voices of FGD respondents concerning market funeral associations

"We have organized ourselves and formed funeral association. We also have the support of the market traders' commission. If someone is affected by death in their family, they receive credentials from the market commission. The affected trader then presents these credentials to the other market traders who are then obliged to provide support."

Informal trader, Maquinino Market

"I belong to a funeral association and we pay 25MT a month. A person can pay any amount they wish to, we even have some that contribute up to 300MT. Our money is deposited at the bank. We hold meetings every three months where the president informs us how much we have in the bank. The money we pay out is used to buy a coffin. Being a member of a funeral association is helpful because if something happens while I do not have money at home, at least I have money to buy a coffin."

MFI Client, Maputo

Church groups or church associations

In one focus group discussion, some of the respondents indicated they were members of a church group or church associations. Box 12 below contains quotes from focus group

discussion respondents concerning church groups or church associations. From these we can draw the following high level conclusions:

- Contributions are flexible and can be in cash or kind;
- Church groups cover various risks including theft, illness and death;

The support offered by church groups can include food, clothing and money.

Box 12. Voices of FGD respondents concerning church groups or church associations

"It depends on the contributions. Food is bought according to the amount of money received. For example the "capulana" and "mucume" are purchased if a woman has lost her child. A volunteer may help out and purchase the coffin and other items. This is how our church group works."

AVIMAS member, Maputo

"For example, in my church, Assembly of God, we contribute 100 MT on an annual basis."

AVIMAS Member, Maputo

"In the churches in the Mafambisse area, they have a fixed contribution amount; single women have to pay 25 MT a month and married women have to pay 50 MT a month."

AVIMAS Member, Maputo

"The church group helps when It comes to theft. It once happened in my church, a woman had everything insider her house stolen, so the pastor told our group to help that woman with a spoon, plate and "capulana.""

AVIMAS Member, Maputo.

6.4. Perceptions of and experiences with insurance

There are a number of barriers to entry which limit or bar low-income people from taking up insurance products.

Figure 22 below highlights the reported reasons for not having insurance. This was also explored during FGDs.

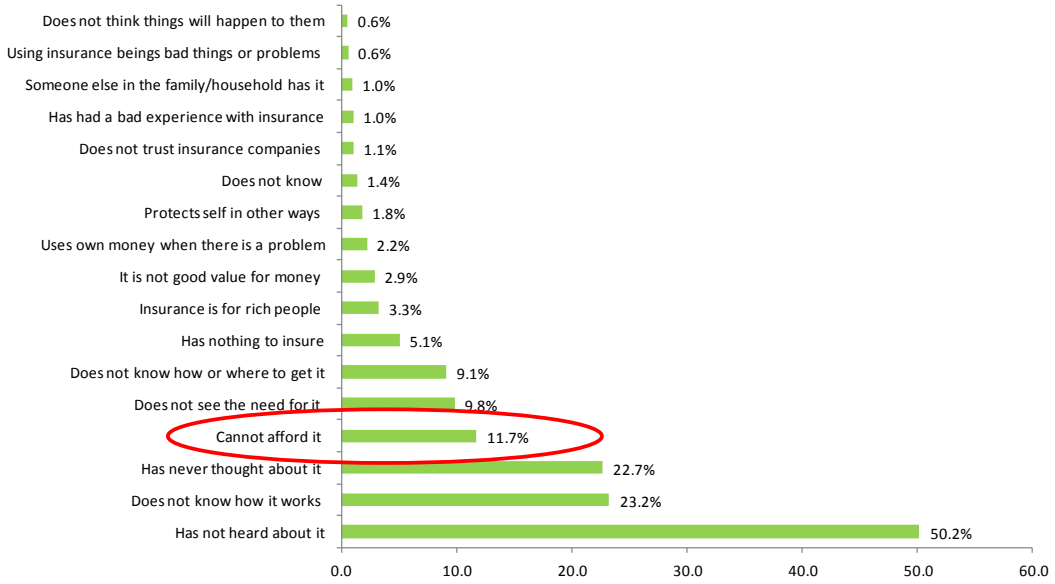

Figure 22. Access and usage barriers to insurance usage

Source: FinScope Mozambique, 2009

Trust in insurance companies. Unlike typical findings in other developing countries, Mozambicans potentially still trust insurance companies. Few FinScope Mozambique respondents noted distrust of the insurance companies as a reason for not obtaining insurance although the service level and difficulty of claims administration undermined trust for some in the focus groups. The expressed level of trust should be treated with caution as the low levels of formal insurance penetration make experience with this sector scarce. This is further supported by the fact that 50.2% of the population have never heard of insurance. Nonetheless this unknown quantity may work in favour of the industry by enabling it build from scratch trust in the sector. The apparent level of trust is a significant benefit to the insurance industry and should be protected.

Quotes:

"I do not get my premium back if nothing happens. For example, I pay for a car insurance of 1000MT and if I have an accident that year, the insurance company will pay me something like 400,000 MT (USD $14,600) . But if I do not have an accident, that 1000 MT (USD $37) is not recovered." Informal trader, Bobole

"It is the red tape that makes me distrust insurance companies. There are some cases when an accident occurs and the insurance company takes longer to cover the damages." AVIMAS, Maputo

Many respondents recognised some brands such as IMPAR, SIM and EMOSE, with EMOSE being the most recognised or mentioned.

Low awareness and understanding of insurance present challenges to take-up. While most FGD respondents demonstrated some form of understanding of insurance, most had a limited understanding of the detailed workings of products and how insurance companies operate. Levels of understanding of insurance varied according to the profile of the respondents. MFI clients and school teachers demonstrated a greater understanding of insurance. Some MFI clients indicated that they had credit life insurance with their loans, while some teachers had formal insurance products including credit life with commercial banks, and health insurance. FinScope Mozambique results show that 50.2%[115] of respondents have not heard of insurance. 23% of respondents said that they do not know how insurance works or have never thought about it. 9% said that they do not know how or where to get insurance. Focus group respondents also requested additional information concerning insurance and indicated they would be more likely to purchase insurance products if they had additional information. While awareness and understanding will not necessarily translate to take-up of insurance, it is certainly a prerequisite for take-up.

We have already heard about insurance, but we do not understand what it is." Farmer, Mafambisse

"No one comes to talk to us about insurance." Farmer, Vale Infulene.

Affordability reported as a key issue for respondents but may be driven by perception. 11.7% of FinScope respondents (1,346,261 people) mentioned affordability as a reason for not having insurance and the majority of focus group respondents also indicated it as a key factor when deciding whether or not to utilise insurance. It is important to note that neither the FinScope Mozambique survey nor FGDs explicitly tested people's knowledge about the cost of insurance. Further, discussions about informal risk sharing mechanisms showed that contributions to these often exceed the cost of formal insurance policies offering the same or better cover. Moreover, when focus group respondents were asked what they would be willing to pay for insurance, their responses averaged MT 100; several of the formal products have premiums less than this. It is, therefore, possible that the responses on affordability were based on the perceived cost rather than the actual one.

"It is difficult for me to tell you how much I would be willing to pay for insurance. I should be concerned about it and pay for it to avoid losing. The farmer does not like to lose because he gets things with much sacrifice and does not like to owe someone money and be indebted because he knows the sacrifices that are made in order to get money. I would pay 100MT (USD $3.65) on a monthly basis for insurance." Informal Trader, Vale Infulene (Maputo).

[115] These would be uninsured adults.

7. Opportunities for distribution of insurance

This section highlights the opportunities for distribution (and collection) beyond the current broker-dominated network, as a means of extending the reach of the sector to the uninsured and low income markets. In particular, we explore the opportunities presented by utilising the following channels:

- Banks (bancassuarnce);
- MFIs
- Mobile money
- Employers
- Utility companies
- Agricultural groupings; and
- Health sector

7.1. Bancassurance

Financial inclusion lower in Mozambique than rest of SADC. At the outset it is important to note that financial inclusion in Mozambique is lower than its peers within SADC. The 2009 FinScope Mozambique survey showed that only 22.2% of the population had access to financial services, with 11.8% in formal banks, 0.9% in other formal and 9.6% in informal financial services. Nearly half, or 46.2%, of those in rural areas with formal financial services indicated that they need to travel more than two hours to reach a financial centre, while just over a third, or 34.3%, spend more than three hours on travel, with a proportion having to remain overnight.

Development of industry. Following independence from Portugal in 1975, the banking sector was reduced to two State banks and a single private bank. In 1991 the government began the process of liberalisation resulting in the emergence of new banks, mostly fuelled by foreign capital. The government privatised the commercial arm of the Bank of Mozambique, Banco Comercial de Moçambique ("BCM") in 1997, and it merged with Banco Internacional de Moçambique to become Millennium BIM ("BIM") in 2001. Further, Banco Popular de Desenvolvimento, the state development bank, became Austral bank, a Malaysian capitalised entity and was subsequently acquired by Barclays in 2007.

Increasing competitiveness but concentration remains in South. The number of credit institutions operating in the country has risen from 3 in 1987 to 19 in 2011, consisting of 14 traditional commercial banks, 4 microfinance-dedicated commercial banks, and a single licenced e-money issuer. However, even with the increasing competitiveness, banks are concentrated in Maputo city and Maputo Province with limited presence in other metropolitan areas and rural Mozambique. Maputo city still accounts for 37% of all bank branches and 47% of all ATMs. Within the banked population, 83% are urban and only 17% are rural.[116] Banco Único, a privately owned full-service bank, was the latest entrant to the market in August 2011. The market is dominated by foreign capitalised players, predominantly from Portugal and South Africa, as detailed in Appendix B: Table 25 which shows the total number of banks operating in Mozambique. Nearly all loan activity is

[116] FinScope 2009.

focused on non-agricultural sectors (agriculture accounts for 6% of the total lending to the economy)[117].

Steady expansion of banking services yet Mozambicans remains largely underserved. As captured in Table 17 below, the coverage of banking services has increased significantly in the last few years, growing from 28 serviced districts in 2006 to 58 in 2010. More than half, or 55%, of the districts remain underserved. Over this same period the number of branches increased from 228 to 416. Branches are still concentrated in urban areas, but there are now 108 branches located in rural districts. The goal of the government is to increase the rural coverage to 80% or 102 of the 128 districts by 2017. In order to facilitate financial services expansion, some measures have already been taken, such as s less onerous requirements for rural branches.[118]

Province	No. of Active branches	% of total branches	Branch/ 100,000 (total)	Branches in rural districts	Branch/ 100,000 (rural)	No. of ATMs	No. of POS devices
Maputo City	153	36.8	24.8	--	--	271	3213
Maputo Prov.	41	9.9	6.0	17	8.4	61	357
Gaza	29	7.0	5.1	18	4.3	48	141
Inhambane	28	6.7	4.6	14	3.1	44	217
Sofala	39	9.4	5.1	11	2.5	61	358
Manica	22	5.3	3.4	7	1.5	28	102
Tete	25	6.0	3.0	11	1.5	36	83
Zambezia	21	5.0	1.2	12	0.8	43	46
Nampula	38	9.1	1.9	8	0.6	64	212
Cabo Delgado	10	2.4	1.2	5	0.8	21	70
Nyassa	10	2.4	1.7	5	1.1	25	62
Total	416	100	4.2	108	1.6	702	4861

Table 17. Bank branch distribution per province and districts (provincial capitals) as at December 2010

Source: Bank of Mozambique, Comunicado 24/10, Jan 2011, S. Teyssier, 2011: using BM (Branches) and INE (population)

Big four dominate market. The traditional banking space is divided between four players; BIM, Banco Comercial e de Investimentos, SA ("BCI") (both majority Portuguese owned), Standard Bank (South Africa) and Barclays who own 90% of total assets and loan advances, and 92% of total deposits[119]. Together BIM and BCI share 60% of the credit market[120] and account for 70% of the total assets of the "big four"[121] (Appendix B Table 24). BIM is the

[118] Aviso 10/GBM/2007
[119] KPMG, The Mozambique Banking Sector (2008). Available at: http://www.kpmg.com/MZ/en/IssuesAndInsights/ArticlesPublications/Banking-Survey/Documents/Banking-Survey-2008.pdf
[120] In 2010, BIM credit to clients was MT 34,982, and BCI was MT 30,133, or 32% of the market share in 2010 (in BIM Relatorio de contas 2010 and BCI- Relatorio de contas 2010)
[121] KPMG, (2009), quoted in Agencia de Informacao de Mocambique (AIM), 23 February 2011. Available at: http://allafrica.com/stories/201102240142.html. NB: 2009 report not yet available. For latest public information, please see KPMG, The Mozambique Banking Sector (2008).

dominant player in the market with 126 out of a total of 416 commercial bank branches and 40% of the big four's total assets (see Appendix B Table 25).

Big four traditional banks provide potential for microinsurance distribution. The big four are distributing microinsurance-type products. Together they have 314 outlets of which 135 are in Maputo city and Maputo Province (see Table 25 in Appendix B), a potential bancassurance distribution network, particularly since increasing competition amongst banks is encouraging them to both seek new revenue streams and increase their customer bases through providing additional services.

Large portion of banked uninsured signalling opportunity for bancassurance. In 2009 7.6% or approximately 869,000 adults held a bank account with a commercial bank (excluding the four microfinance commercial banks). Of these customers only 10% (c. 85,000 adults) reported having a formal insurance policy. This signals significant opportunity to expand access to insurance through bancassurance channels utilising the 416 branches.

Banked has highest sustainable and premium sustainability. Appendix K: shows that of all the so-called touch points i.e. potential for reaching additional economically viable insurance clients, banks have the highest portion of individuals falling within the sustainable income groups (even if challenging at low end). This further reinforces the attractiveness of banks as a distribution channel.

Negotiation between bank and insurer needs to benefit the end-consumer. Banks control access to client bases and large commissions may be demanded by banks to intermediate insurance. This may require monitoring by the ISSM to ensure that value is delivered to the consumer. Further, for insurers and banks within the same group e.g. SIM and BIM, Barclays and Global Alliance, regulations should require that clients are offered products from other suppliers.

Concentration in the South limiting. Although the reach of the banks is expanding, the current concentration in the South will limit bancassurance opportunities.

Remittances provide opportunity to extend reach with complementary insurance products. According to the FinScope Mozambique survey, 7.32% or c. 840,000 adults indicated that they send funds within and outside of Mozambique. Of these, 39% (c. 325,000 people) send money through commercial banks, one tenth of whom are insured. This highlights the potential untapped client base that bancassurance could reach (although as Appendix L: shows, 56.7% of those who remit funds fall within the unsustainable income group).

7.2. Microfinance sector as a potential insurance distribution channel

This sector is made up of four commercial banks providing microfinance (which are excluded from the section 7.1 analysis), microbanks and microfinanciers. As discussed in section 4.7, Regulation (Decree 57/2004) differentiates between commercial banks focusing on microfinance business and microbanks. In this section we analyse the potential of this sector to distribute microinsurance products.

History of the sector. At the end of the civil war in 1992, donor funding poured into the country. This was increasingly replaced after the first five years with microfinance programmes, starting in the south of the country (Maputo and Gaza Provinces) and

progressively extending to the centre and northern regions. These programmes were mainly credit orientated due to banking legislation prohibiting savings mobilisation. The government has played an active role in promoting and supporting the microfinance industry[122].

Stagnation in credit activity since 2009. Following a period of continuous and strong growth, credit activity has been stagnating since the end of 2009 with declining numbers of clients (75,000 active clients reported by 18 MFIs in March 2011), but an increasing portfolio due to an increase in the average size of outstanding loans. The decline in individual credit activity has been due to some banks focusing their business strategy on small and medium enterprise financing since 2009.

Microfinance focused commercial banks

Microfinance-focused commercial banks dominant. The four microfinance focused commercial banks are Banco ProCredit ("ProCredit"), Socremo Banco de Microfinancas ("Socremo"), Banco Oportunidade de Moçambique ("BOM") and Banco Tchuma ("Tchuma")[123]. Commercial licence allows for full service offering and all four offer loans, savings, remittances and payments. They have 54% of credit clients and 79% of the credit volumes in the microfinance sector and account for 98.5% of depositors and 99.4% of deposits in this sector.[124]

Procredit and Socremo have larger average outstanding loan sizes. Procredit and Socremo account for 67% of the total microcredit portfolio in Mozambique [125]. They also target the higher income earners of the microfinance clientele, whereas BOM and Tchuma, both target the lower income microfinance public.

Significant fixed branch network with mobile branches (operated by BOM) in rural areas. Commercial banks focused on microfinance operate in 44 bank branches, 16 of which are in Maputo, with Procredit having the most extensive network (20 branches, 9 of which are in Maputo). In addition, BOM extends its services in more rural areas with six "mobile banks", trucks equipped as branches that can travel up to 80 kilometres from a central branch. These branch networks are small compared to the 'big four' traditional banks but compare with other commercial banks such as Banco Terra, FNB and most of the other banks that are based in Maputo and Matola cities. Based on insurance industry consultation it appears that only BOM provides a credit life and funeral microinsurance product, underwritten by Hollard Mozambique. This represents a significant distribution opportunity for insurers.

Microbanks and other formal MFIs (see Appendix H: annex 3 for a more detailed overview)

[122] See World Bank, *Agriculture and Rural Development, Agribusiness Indicators, Mozambique*, forthcoming, 2012.
[123] Tchuma started its operations as a Credit and Savings Cooperative, and became a commercial bank in 2010; SOCREMO started as a German returnees' support project, and evolved to become a bank in 2003; Banco Oportunidade and ProCredit were established with bank licenses. Industry consultation suggests that ProCredit and Socremo may move out of the microfinance sector.
[124] Microfinance Sector Mapping and Analysis, DNPDR, prepared by ICC, December 2011. These figures include all microfinance operators but exclude ASCAs.
[125] Source : AMOMIF (Association of Mozambique Microfinance Operators) database (last data: 18 institutions are reporting to AMOMIF) .Reporting to the AMOMIF database is voluntary.

Microbanks. Microbanks are credit institutions whose main purpose is to carry on microfinance business within the ambit of the microfinance legislation. Microbanks are supervised by the BM and are permitted to take deposits.

Supervised microbanks. The supervised microbanks include four classifications of microbank that are all permitted to take deposits from the public: *caixa economica*, *caixa de popanca postal*, *caixa financeira rural*, *caixa geral de poupanca e credito*. Each microbank has a specific trait that distinguishes it, whether it be largely rural focused (i.e. *caixa financeira rural*) or majority controlled by a postal provider (i.e. *caixa de poupanca postal)*. There is an additional category of supervised microfinance institution, the *savings and credit cooperatives*.

The formalisation of microbanks. The BM has authorised eight microbanks, with one authorised to collect savings. Microbanco Malanga has ceased its activities following insolvency. The seven remaining microbanks collectively have distribution in seven provinces mostly offering credit products (microenterprise and consumer loans). Despite their formalisation, microbanks' MFI market share is still very limited accounting for only 3% of credit clients and 6% of the credit portfolio.[126] GAPI[127]-Investment Society, one of the country's first development finance institutions, is currently promoting the creation of a rural microbanks network.

Seven registered Credit and Savings Cooperatives (CCPs) operating in Mozambique. There are seven CCPs registered with the BM, three of which are situated in Maputo, two in rural areas (Tete/Angonia and Gaza/Chokwé) and two in Nampula province in the major urban centres Nampula and Nacala.

Monitored MFIs. These include community credit and savings organisations, microcredit operators and deposit intermediaries. Despite legislation permitting them to do so, to date no MFI acts as a deposit intermediary, mainly because commercial banks have shown little interest in these kinds of partnerships.[128] As of August 2011, BM data suggests that there are 155 microcredit operators in the country, 60 of which are registered with the BM and with the vast majority (70%) operating in Maputo city and province.[129]

The majority of microcredit operators are NGOs. Further, many community savings and credit organisations are supported by NGOs. Only a few NGO microcredit operations are sustainable and management information systems are rudimentary.

Four microcredit operators providing microinsurance products. Industry analysis revealed that four microcredit operators, Hluvuko, FDM, MBM-MicroBanco MaLanga, and Progresso are selling credit life microinsurance products.

Summary of MFI industry data. The available information regarding the main MFIs is detailed in Appendix C: Table 26. This is summarised below.

# MFIs reporting credit	**19**
# active clients	**78 797**

[126] ICC, 2011. Based on those operators that provide data to AMOMIF.
[127] GAPI (Gabinete de Consultoria e Apoio à Pequena Indústria) is a majority private institution.
[128] ICC, 2011.
[129] ICC, 2011 based on data from BM.

average clients/organisation	4 147
Active portfolio in '000 MT	2 333 467
Average outstanding loan /clients	29 614
PAR 30	5,71
# MFI reporting deposit	**8**
# depositors	**245 375**
Deposit volume in '000 MT	1 844 191
Average deposit	7 516
# branches	**142**
# staff	1 647
# loans/staff	48
Loan value/ staff	1 417

Table 18. Agglomerated information of all reporting MFIs as at June 2011

14% of commercial bank microfinance focused and supervised MFI clients have formal insurance and 8% have insurance with the INSS. According to FinScope Mozambique, 1.3% of adults (146,125 people) indicated they were members of microbanks and savings and credit cooperatives.

Presence of higher-income clients may increase commercial interest in this opportunity. Amongst the touch points noted (banks, MFIs, network operators and formal employment), MFI clients had the highest portion falling within the premium sustainability group i.e. those earning in excess of USD $50 per day. (See Appendix J: for detailed information concerning the income distribution). While this may not be the target market of this study, the presence of higher-income clients may make this a more attractive channel for insurers.

Figure 23 below shows a breakdown of MFI clients according to an analysis of FinScope Mozambique. There are three main types of MFIs that were picked up by the survey – **commercial MFI banks, microbanks** and **savings and credit cooperatives**.

Commercial banks account for 74% of formal MFI clients and are showing interest in insurance. Commercial bank microfinance clients account for 74% of all MFI clients (approximately 108,000 people) and only 4% (4,700 people) are formally insured. Given their ease of reach there is potential for insurance penetration within this market. BOM is already offering a credit life product to its clients. During meetings, Tchuma indicated a keen interest in providing microinsurance to its clients.

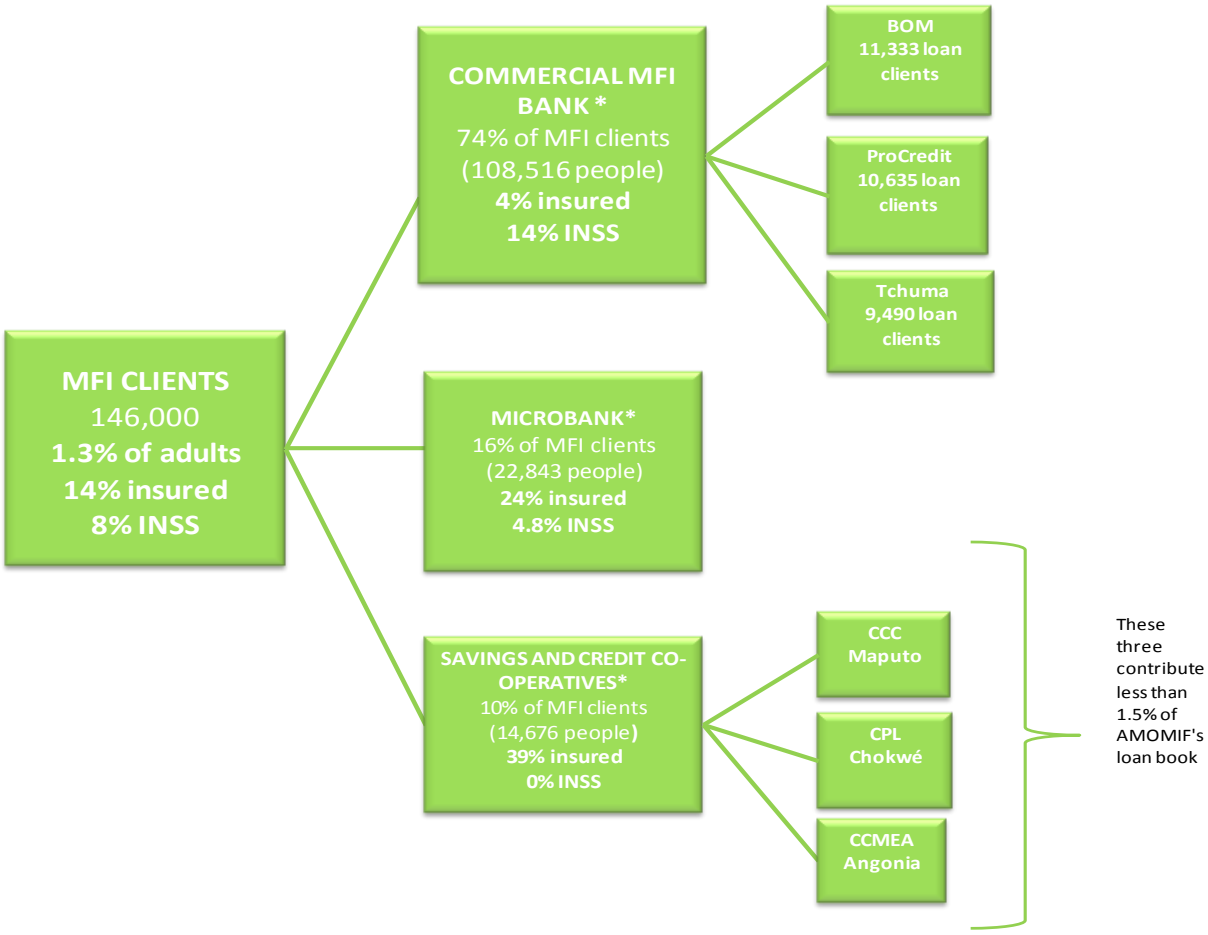

Figure 23. Opportunities for the provision of microinsurance through MFIs

Source: FinScope (2009), AMOMIF*

Microbank clients show a higher penetration of insurance than commercial bank microfinance clients. Microbank clients account for 16% of all MFI clients (approximately 22,800 people). 24% (5,400 people) are formally insured and 4.8% (1,100 people) have some form of cover from the INSS.

Savings and credit co-operatives. Savings and credit-cooperative clients account for 10% of all formal MFI clients (14,800 people). This group of MFI clients has the highest level of insurance penetration at 39% (5,800 people). This indicates the potential for distribution (albeit limited in terms of scale). Interestingly, all of the formal insurance policies that are held by savings and credit-cooperative clients are with EMOSE.

Need for regulation to make microbank intermediation of insurance explicit so as to not limit it to credit-life. Legislation should enable the MFI sector to distribute all forms of microinsurance and not only credit life insurance which it appears to be limited to doing in terms of the definition microfinance and complementary activities.

Formal MFI concentration in South and urban centres means that it will not provide an easy vehicle to distribute insurance beyond these areas. Below we show the spread according to province.

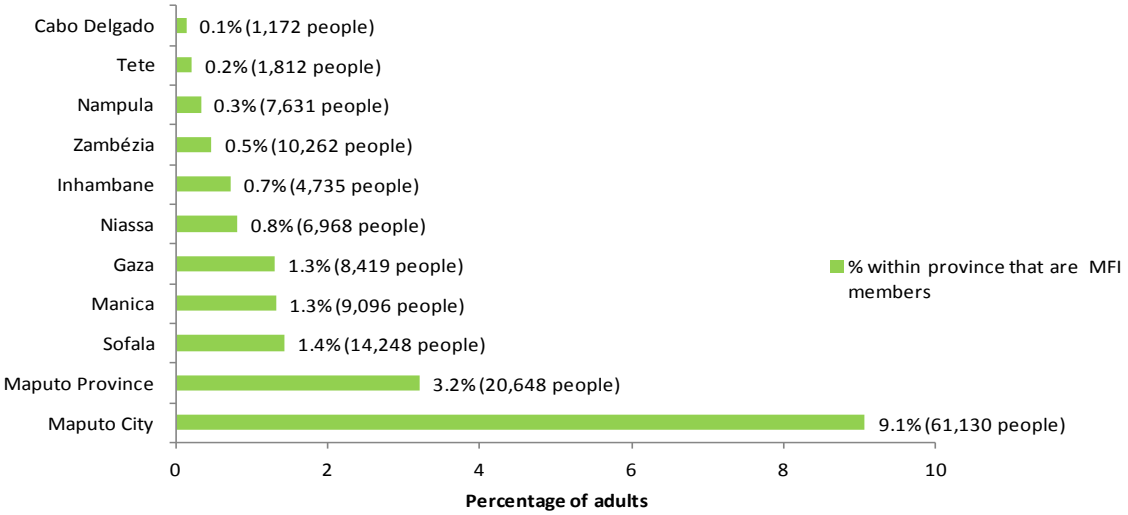

Figure 24. MFI membership within each province

Source: FinScope Mozambique, 2009

MFI client profile. In Figure 25 below we display key characteristics of MFI clients based on analysis of the FinScope Mozambique 2009 data set.

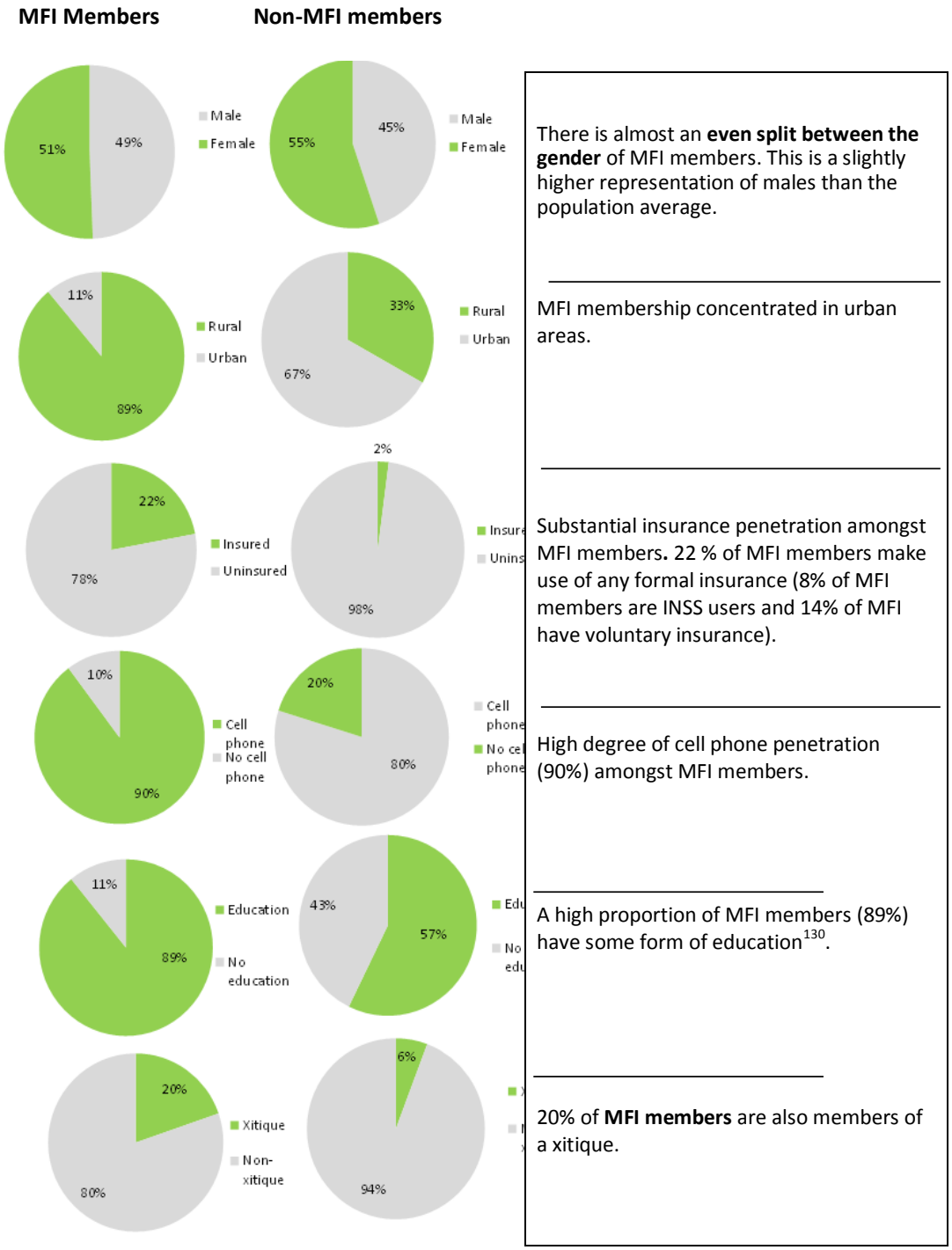

Figure 25. Profile of MFI clients

Source: Finscope Mozambique, 2009

[130] Using FinScope a variable was created using all levels of education listed in FinScope.

Awareness of insurance cover amongst MFI clients but limited understanding and ambivalent perception of value amongst MFIs. As stated in section 6.4 above, the higher awareness among MFI focus group clients makes them a potentially more receptive consumer than other buyers. However, many indicated that they did not understand how the products worked and this needs to be addressed before undertaking distribution via MFIs.

"*When you borrow money from there, they deduct a little money as payment towards our credit life insurance account."* MFI client (Informal trader), Manhiça.

"Hluvuku provides credit life insurance. The benefit is that if I die, my family will not pay anything. It also seems that Hluvuku will cover the expenses when theft occurs." MFI Client, Boane

"I don't understand this MFI XYZ insurance. They will deduct additional money on my account if I request a loan of MT 10,000 (USD $370). When I have finished paying off the debt, I do not benefit from the money they deducted. Where does that money go? In other associations like xitique, they give you the money they have deducted when you leave the group." MFI client Boane

7.3. Retail distribution network, payment system and mobile financial services as distribution networks

In this section we provide a brief overview of the current developments in the retail payment systems environment in Mozambique focusing particularly on the development of mobile financial services. We then explore the opportunity for microinsurance in regard to these, which may arise from the new distribution network which these systems represent and/or an alternative premium collection channel.[131]

Retail collection networks. The banks, particularly the big four, control retail collection networks. BIM, Standard Bank and Barclays have proprietary ATMs and POS networks. BIM has the highest number of ATMs (320) (see Appendix B: Table 34).

Limited POS reach. The BM has identified four causes for the limited use of POS devices:

(a) lack of awareness of the benefits of card transactions
(b) a small network of merchants equipped with POS devices
(c) high costs per transaction;
(d) congestion of the network resulting in transaction delays or rejection of payments.

POS devices are used by shopkeepers and restaurant owners who are not classified as retail payment agents and are unable to offer further services. Industry consultation has suggested that there have been experiments with using such businesses for the payment of utility bills but these have largely not been taken up. Retail payment networks serve as a significant distribution and collection point in developing countries and consideration should be given to facilitating this function.

e-money potential for premium collection but is in its early stages. In 2010 the BM granted its first e-money licence to Carteira Móvel, a subsidiary of mcel, a wholly government-owned company and the country's largest mobile network operator ("MNO"). It has 4 million clients, or over 50% of the market. Its network reaches 60% of the country and over 75% of

[131] We have made extensive reference to Bankable Frontiers Associates (2011)

the population. In addition to its airtime agents, it has 25 of its own stores.[132] The current market priority for its mKesh e-wallet is the three major cities (Greater Maputo, Beira and Nampula), with plans for rural expansion at a later date. However, only 40% of the 2,700 agents are "full agents," those that allow customers to deposit and cash out, and most are concentrated in Maputo.[133] Consultation with Carteira Movel suggests that the platform could be used for premium collection via the payment gateway. This will reduce the cost to insurers of collecting low value premiums.

Box 13. mkesh – e-wallet platform

The new mKesh e-wallet platform was launched in September 2011. It allows for deposits, transfers and payments and requires only a telephone number to register. For mcel customers, the service is free to join. Transaction fees total approximately 1.7% for up to USD $100, which is very economical compared to M-Pesa and other services in Africa.[134] By November 2011, it had 2,700 points of sales between airtime sellers and mcel stores that are being used as mKesh agents. mKesh's strategy from the beginning has been to create a large enough network of agents before focusing on customer uptake.

Consultation with mKesh suggested that the company had gained 20,000 clients in just two weeks after launching. This was said to have taken place without advertisement.[135]. The mkesh e-wallet product has the potential to have wider penetration and geographical representation than the traditional banking payment infrastructure. Many potential clients have had negative experiences with institutional banking, including long queues at ATMs and frequent failure of ATMs. For 2012, mKesh plans to partner with companies such as utilities for payments and even rural employers such as tobacco and cotton companies to pay wages via e- money. It has also bid to for pension pay-outs. These kinds of cash transfers and benefits also tend to increase uptake as customers get used to using and trusting the service.[136]

Carteira Móvel's sole role is to hold the float of e-money issued, but would still have access to the RTGS (Real Time Gross Settlement)[137] and other payments infrastructure, due to its status as a regulated credit institution.

Vodacom (a subsidiary of the British group Vodafone) is preparing to launch a similar mobile wallet product, most likely in association with a local bank[138] to service its 2.5 million clients. It is currently known to be investing heavily in marketing, service quality, new towers and its distribution network. Meanwhile, the traditional banks are lobbying to get access to the mobile phone networks to launch similar products.[139]

Only one non-bank payment provider. Interbancos is a licenced credit card company providing POS and ATM switching services to its 8 member banks via the Ponto 24 network.

[132] Consultation with Carteira Movel, September 2011.
[133] MobileActive.org. 'Its not yet mPesa: mobile money in Mozambique is slow to take off', 18 November 2011. Available at: http://mobileactive.org/mkesh-operator-led-mobile-money-mozambique-slow-take
[134] MobileActive.org, It's not yet mPesa: mKesh, Mobile Money in Mozambique is slow to take off', 18 November 2011. Available at: http://mobileactive.org/mkesh-operator-led-mobile-money-mozambique-slow-take
[135] Consultation with Carteira Movel, September 2011.
[136] MobileActive.org, It's not yet mPesa: mKesh, Mobile Money in Mozambique is slow to take off', 18 November 2011. Available at: http://mobileactive.org/mkesh-operator-led-mobile-money-mozambique-slow-take
[137] Real Time Gross Settlement systems are those upon which the transfer of funds and securities between banks and other financial institutions is conducted on a real time, continuous and gross basis. It is the fastest possible way to transfer funds through the banking channel or system.
[138] Consultation with Vodacom, September 2011.
[139] Industry consultation, September 2011.

Member banks of the network are BCI, FNB, Socremo, Banco Terra, Tchuma, Moza Banco, CPC[140], and ICB. BCI accounts for 90% of Interbancos transactions (BFA, 2011).

The absence of a national bank clearing house or switch creates a cost for the client. Currently, there is no national bank clearing house or switch in Mozambique. The only multibank switch is Interbancos, a non-bank switch. The BM clears some transactions such as VISA cards while American Express and Mastercard are cleared abroad. Interbank transactions that do not use Interbancos (namely BIM, Standard Bank and Barclays[141]) are cleared bilaterally, which usually means a high cost is passed on to the client. All transactions from the different networks are ultimately settled in the RTGS system operated by the BM.

Introduction of a national switch may lead to a reduction in interbank transaction fees. The BM, in partnership with the country's major banks, is in the process of setting up the country's first national switch, Sociedade Interbancária de Serviços de Moçambique (SIMO), to connect and enable all banks to share all ATM and POS units in the country[142]. The BM intends to provide free interbank transactions. SIMO will require all banks to rebrand their ATMs and POS terminals with the SIMO brand. The ATMs will be owned by SIMO itself, responsible for the maintenance of the machines. This switch could help reduce switching costs enabling more clients to pay their premiums electronically via either banks or the mKesh e-wallet (Carteira Movel will be a party to SIMO).

Distribution to mobile phone clients. Currently 21%, or c. 2.4 million Mozambican adults own a mobile phone, only 29.3% of mobile users or (c. 708,000 people) are banked and only 3.6% or (c. 86,000 people) of mobile users currently have any voluntary insurance products (4.8% c. 117,000 people have insurance provided by the INSS and 8.4% in total have any formal insurance – c. 203,000 people). This provides a significant opportunity for utilising the e-wallet channel as a means of increasing access to microinsurance. The model is however new and requires time to be bedded down and adopted.

Cell phone could serve as touch point but sustainability of clients may be an issue. Approximately 28.5% of those who own cell phones (c. 690,000 people) fall within the unsustainable income group (earning USD $2.50 per day or less – see Appendix K: . However, combining the mobile phone client base with the higher income bank client base may support viability.

Distribution through mobile banking agents. The introduction of mobile financial services has created a growing network of mobile money agents (e.g. 2,700 merchants by November 2011 for Carteira Movel's M-Kesh brand). This network presents an interesting opportunity for selling insurance even beyond the mobile client base. From the agents' perspectives insurance could be attractive as an additional source of income. The current concentration of the agents in the South will however limit the model's reach.

Bundled products could unlock market. Given the lower distribution cost and scale benefits, automatic enrolment products could be viable even for those clients with very low incomes. The rationale for this type of cover (where the MNO pays for the insurance) may also dissipate as it is most valuable to the MNO when they are the only ones offering such product (to distinguish them from competition). While this is a valuable starting point the focus from the start should be to ensure awareness of and value to consumers to enable

[140] This is the credit cooperative of the employees of the Bank of Mozambique.
[141] As they have their own proprietary networks.
[142] http://opais.sapo.mz/index.php/entrevistas/76-entrevistas/15074-sociedade-interbancaria-deslocalizar-a-economia.html

longer-term business development. It will also be in insurers' interest to explore voluntary take-up models in anticipation that the bundled model may have a limited life span. Care should also be taken to ensure that products offer value and consumers are informed and able to use their cover.

Incentives may be required to catalyse interest. Given that MNOs may not prioritise insurance as a product and that, where they do offer insurance, there are risks that the bundled product does not deliver value to the consumer, this warrants the involvement of public interest parties to incentivise the adoption of products by MNOs and support design to ensure value to consumers.

Articulating regulation for the delivery of microinsurance via MNOs. There are no immediate obstacles to the delivery of microinsurance via an MNO. Clearly articulating their potential for intermediation would send out signals to the market to develop this distribution channel.

The BM would need to consider the issue of premium collection, embedded in airtime, deducted from airtime in a voluntary sale or a cash transfer in an e-money scheme (i.e. through Carteira Movel's mkesh brand).

Of all of the three above "touch points" or means of accessing more clients i.e. banks, MFIs and mobile phones, mobile phones present the greatest opportunity as shown below.

7.3.1. Implications for extending insurance

MFIs, banks and mobile banking agents could significantly increase the reach of the insurance sector. The MFI, banking and mobile banking environment provides insurance companies with the opportunity to extend their reach through bank branches, MFI branches (both fixed and mobile branches), MFI loan agents and mKesh agents. While some of these channels have already been utilised to-date there still exist a significant un-tapped potential.

Developments in mobile and payment systems landscape facilitate lower cost premium collection. Low-cost premium collection for small value policies remains a challenge for microinsurance development. Recent developments in Mozambique with the emergence of electronic money - through mobile phones - and improvements in the payment systems environment has laid the ground-work for lower-cost premium collection.

Concentration of financial sector infrastructure in the South. The use and associated physical infrastructure of bank products, MFI membership and mobile phone usage is concentrated in the South of Mozambique. The use of these channels will be less effective in reaching the populations in the Central and Northern regions of the country.

Touch points are potential points of contact and interaction between insurance companies and potential clients. Ideally such touch points should facilitate the sales and advertising process as well as premium collection. Touch points become more interesting if they can provide unique access to particular groups of clients and when they can serve as distribution point beyond their current client base.

The primary touch points identified in the analysis are those who own a *cell phone*, those who are *members of an MFI, those who are banked and those in formal employment* (please see Box 14 below).

In Figure 26 and Figure 27 below we consider the two touch points for what we regard to be first-order untapped market opportunities. In addition, we briefly outline the overlap and reach of these touch points.

Box 14. Definitions of variables used to create the different touch points

When we combined all the figures in each circle we come to a total figure for either formal employment, bank account or cell phone ownership.

Bank account ownership

We grouped all those respondents who own an account with a formal banking institution like Millenium BIM or Barclays to create a variable denoting those who are banked. 7.5% of adults (868,756.people) own a bank account. We excluded MFI commercial banks from this definition.

MFI membership

FinScope only explores MFI membership in three ways:

The use of commercial MFI banks for banking purposes such as *term deposits, salary accounts, debit and credit cards*.

The use of microfinance institutions such as *Commercial Microfinance Bank, Microbanco, Cooperativas de Crédito* for savings and investments.

The use of microfinance institutions such as Commercial Microfinance Bank, Microbanco, Coopertivas de C*rédito*, Sociedades de Investimento for credits and loans.

We combined all three of these to create total MFI membership. 1.3% of adults (146,125 people) indicated they are members of an MFI.

Cell phone ownership

21% (c. 2,419,000 people) of respondents indicated they own a cell phone. This excludes people who have access to a cell phone.

Formally employed

We created a variable to denote those who are formally employed. These are individuals who indicated wages, salaries and pension pay outs as their main source of income.

In Figure 26 below we consider overlaps between those who own cell phones, those who are banked and those who are microfinance clients as per the results from the analysis of the FinScope Mozambique 2009 data set.

Cell phones present the biggest consumer touch point. The cell phone touch point has the largest absolute client base with 2,419,148 people. The large client base (existing cell phone users) and agent network (an insurer can also sell insurance to individuals that do not own a cell phone) presents a substantial opportunity for wider reach and penetration.

Banks as a touch point. In total 868,756 people indicated that they own a bank account. However, only 1.3% are exclusively bank account holders with 82% having a cell phone and 11.9% being MFI clients.

MFI as a touch point. 146,125 people indicated they are members of an MFI (that is, have accounts with commercial MFI banks, or use credit co-operatives and other microbanco). Apart from being the smallest client group of the three, MFIs only provide unique access to only 0.07% of adults (8,077 people).

Implications. Mobile phones offer the greatest potential to reach the most people. Banks are quite limited, and MFIs are even more limited. To provide scale, leveraging the potential of mobile phones is required.

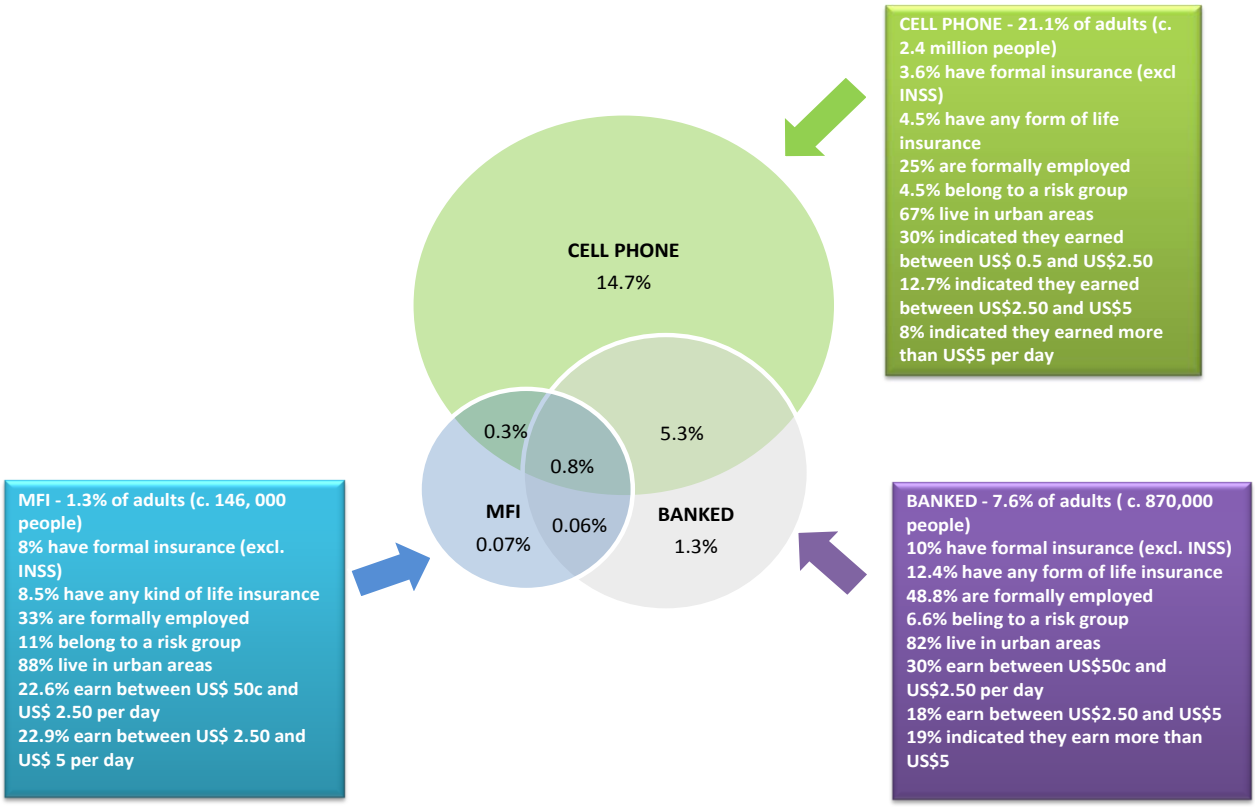

Figure 26. Overlaps between cell phone, MFI and banked touch points

Source: FinScope Mozambique, 2009

7.3.2. Distribution to formally employed

In Figure 27 below we show the overlap between the formally employed and those who are banked and own cell phones. This group represents an opportunity for microinsurance penetration. Worksite marketing could be considered.

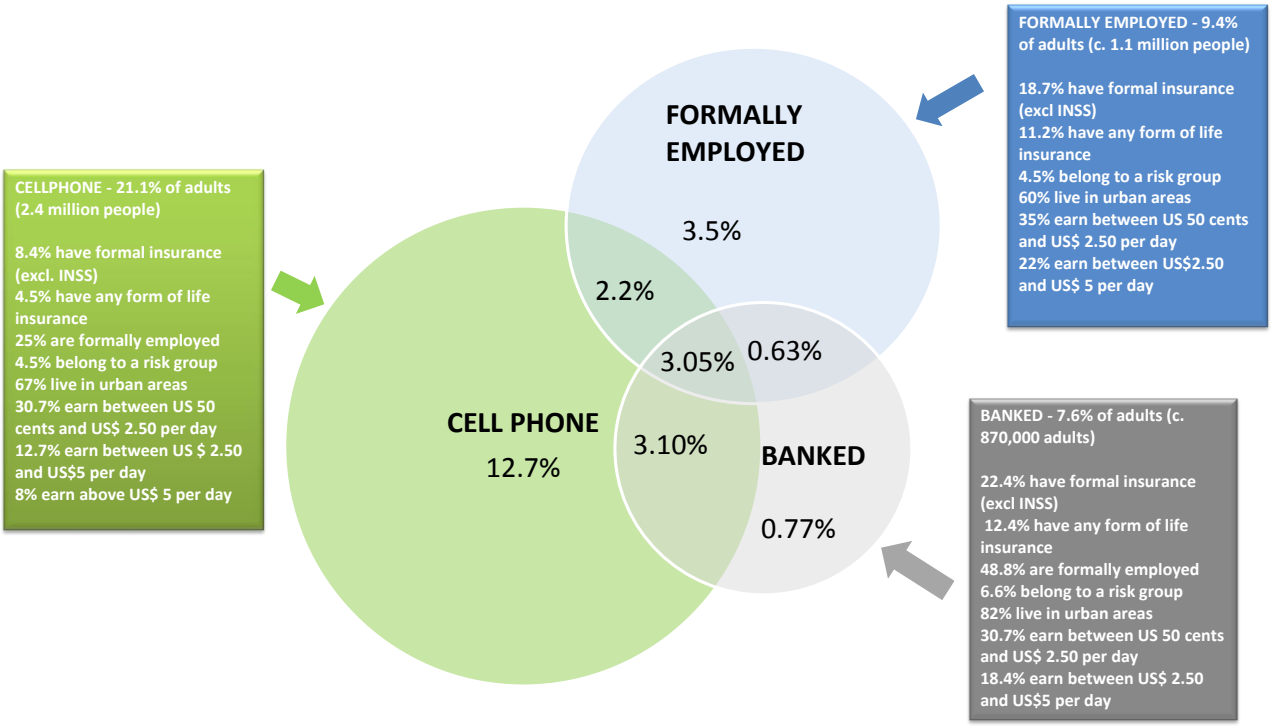

Figure 27. Formally employed, banked and cell phone touch points and overlaps

Source: FinScope Mozambique, 2009

9.35% of adults (c. 1,073,000 people) fall within the formally employed category. 39.5% (c. 423,000 people) of the formally employed are banked and 4.5% (c. 48,500 people) are members of an MFI. 18.7% of the formally employed (c. 201,000 people) have some kind of insurance, 5% (approximately 55,000 people) with formal insurance companies. 11.2% (c. 120,000) indicated they have some form of life insurance while 4.5% belong to an informal risk group. 60% (c. 641,000) of the formally employed live in urban areas. This indicates a significant opportunity for insurance companies to further extend insurance offerings within this group. The fact that a substantial proportion of the formally employed are government employees places government in a good position to leverage this opportunity.

Ease of access may allow penetration to low-income segments. Although 34.6% (c. 372,000 people) of this group earn between USD $0.50 and USD $2.50 per day (50,000 to 250,000MT per annum) and are considered a "challenged sustainability" group, and approximately 19.6% (c. 210,000 people) fall within the unsustainable group (earning less than USD $0.50 per day or less than 50,000MT per annum) (see Appendix J:), insurers could still focus on the formally employed as they have a regular flow of income even if small. The ability to distribute through employers and obtain premiums through payroll deductions will be critical to enable this channel given low income levels.

Industry interviews reflected resistance of employers to facilitate insurance to employees and allow deductions from payroll. Typically this type of employee-benefit scheme starts with retirement savings, which is still underdeveloped in Mozambique. A regulatory amendment would send out the appropriate message for market making via this channel.

7.4. Leveraging utility bill infrastructure for insurance distribution

7% of adults reached through utility bills. Approximately 7.3% of adults (c. 840,000 people) indicated they have either a water or telephone bill in their name. Of these 9% (approximately 44,000 people) indicated they are formally insured. In Latin America, there are insurers that have partnered with utility providers to provide insurance products to their client base. Typically these utility-based insurance policies cover the client's contractual obligation to the provider in the case of death, illness, or unemployment (Cenfri, 2011). Not only does the utility provider's client base serve as a distribution network achieving scale, it also serves as a premium collection channel via the bill payment system.

Presence of higher-income clients may increase commercial interest in opportunity. 1.5% of utility clients earn above USD $50 per day and 13.3% earn between US$5 and US$50 per day making them a high income-earning group. This reinforces the potential opportunities and reach insurers could gain from leveraging utility providers' client bases.

Facilitation may be required to structure mutually beneficial relationship between insurers and utility companies. The study did not identify any particular constraints to utilising this opportunity. However, international experience shows that there may be some challenges in structuring a partnership between these entities of very different natures. In addition the utility companies (and for that matter insurance companies) may not be aware of insurance as a potential opportunity and may also face mandate constraints (particularly if they are government-owned). Regulators may wish to facilitate this opportunity.

7.5. Leveraging informal financing mechanisms for the provision of microinsurance

Unpacking informal savings and credit structures. These are *ASCAs or NGO run savings and credit associations,* **xitique schemes** (types of savings mechanisms) being either xitique rotativo (rotational savings schemes) or xitique geral (30 day duration individual savings), **family xitiques** that cover funeral expenses for groups of families, and on-demand market and neighbourhood funeral funds.

Informal mechanisms may present fragmented opportunities for marketing. In 2009, 7.4% of adults (c. 850,000 people) indicated they are making use of informal financing mechanisms namely through a xitique, xitique geral, ASCA, informal family grouping or funeral association. These present client groups that are familiar with insurance type products and could provide a relatively knowledgeable group to which to market insurance through agents. Interestingly, 3% (23,000 people) of those who access such informal channels have formal insurance and 6% (53,000) have cover provided by the INSS.

Figure 28. Opportunities for the provision of microinsurance through informal financing mechanisms

Source: FinScope Mozambique, 2009.

Informal family groupings have highest formal penetration. Informal family groupings have the highest level of formal insurance penetration with 9% of adults within the group making use of insurance provided by insurance companies.

No formal insurance usage within ASCAs or xitique geral. There was no indication of any formal insurance usage within a xitique geral or ASCA. 5% of adults (c. 1,700 adults) within a xitique geral indicated they have some form of social protection from the INSS. Ophavela, the largest ASCA, with approximately 60% of ASCA members, self-insures.

ASCAs have achieved significant take-up in rural districts. ASCAs are based on the classical ROSCA or rotation of savings and credit principle of regular contributions and credit among members, introduced in 1997 by CARE International in Nampula province. The approach has spread throughout the country and in 2010 there were more than 5,000 ASCA groups in 89 of the 128 rural districts of the country, a far deeper penetration than the microbank

network[143]. The real number of groups is probably higher. ASCAs have on average 20 members (ranging between 12 and 30). Some are registered with the BM. While they face organisational and funding challenges, ASCAs have proven successful in Mozambique as a social integrator and for the financial education of isolated rural populations, and may represent opportunities for insurance growth. Below we list the main ASCA operators by province.

ASCA Operators	Province	No. of members	% of members
OPHAVELA	Nampula	57 472	59,4
V. Mundial	Gaza, Zambezia, Tete, Nampula	8 911	9,2
ADEM	Sofala, Manica	6 197	6,4
KSM	Manica	4 476	4,6
KUKULA	Inhambane	4 083	4,2
Save the Children	Nampula	3 433	3,5
GAPI	Gaza, Maputo P, Manica, Sofala, Tete Zambezia, Cabo Delgado, Nampula, Niassa	2 636	2,7
ADEL-Sofala	Sofala	2 271	2,3
CARE	Inhambane	1 736	1,8
KULIMA	Zambezia	1 552	1,6
IDPPE C.D	C. Delgado	965	1,0
ALFALITE	Maputo C, Manica, Sofala, Nampula	929	1,0
FHI	C. Delgado, Sofala	870	0,9
OMS	Maputo P, Zambezia	280	0,3
C. Trento	Sofala	242	0,3
LWF	Gaza	234	0,2
SPP-Manica	Manica	156	0,2
AMA	Cabo Delgado	105	0,1
Kubatsirana	Manica	91	0,1
SUDEMA	Maputo City	75	0,1
MAGARIRO	Manica	73	0,1
Total		**100 558**	**100**

Table 19. ASCA operators per province and membership (as at end of 2009)

Source: Teyssier & Carrilho, 2011

Informal savings and investment offering low sustainability. Users of informal financial services are concentrated in the challenged sustainability and unsustainable income categories raising questions about the sustainability of clients within this segment. Refer to Appendix L: for detailed information on income.

Innovative distribution required. Low income levels combined with fragmented nature will undermine interest in this potential target market. Initiatives to encourage networking of the groups could be beneficial as a longer-term strategy.

7.6. Leveraging the agricultural sector for the provision of microinsurance

This section considers the role that the agricultural sector could play in extending access to insurance (not limited to agricultural insurance). Given the limited scope of this study, this is limited to a high-level analysis.

[143] Teyssier S & Carrilho J, Grupos de poupança e crédito em Moçambique, 10 anos depois – Realizações, Desafios e Perspectivas, MAE-DNPDR, 2011

Mozambique's agricultural sector plays a critical role within the Mozambican economy. While agriculture's contribution to GDP was declining, there has been a notable increase in recent years to 31% of GDP in 2012 with 80% of the population deriving their livelihood from the agricultural sector. It is estimated that at least 90% of the farmers grow crops for their own consumption on a small holder basis (USAID, 2011) and contribute to 95% of agriculture's GDP contribution.

Underutilisation of arable land. 50% of the land is suitable for cultivation but only 14% is currently being used (FAO, 211).

21% of adults derive livelihood from agriculture. Approximately 21% of adults (c. 2.5 million people) indicated that the agriculture sector is where they derive their main source of income (henceforth referred to as farmers). The FinScope Mozambique 2009 survey shows that the bulk of farmers (90% of farmers or c. 2.23 million people) gain their livelihood from crop-related activities, followed by fishing (approximately 7% of farmers or c. 160,000 people) and lastly livestock (just under 3% of farmers or c. 54,000 people).

Crops predominantly grown. Crops grown include basic food crops (maize, cassava) (grown by 79% and 63% of smallholder households respectively (CTA, 2006)), other food crops (sorghum and millet,) and cash crops such as cotton, tobacco, oilseeds (sesame, soy, sunflower) and spices (ginger and paprika (CTA, 2006)). The major crops in terms of production are cassava, maize, indigenous pig meat and raw or unmanufactured tobacco. This production pattern also reflects the consumption of agricultural produce. Rice and wheat are mainly consumed in the urban areas while maize and cassava are the staple foods of the rural poor (FAO, 2011).

Bulk of agricultural production done in the north and central regions. The bulk of the country's agricultural production occurs in the Northern and Central regions as these receive the highest levels of rain fall. The Southern region is where the bulk of livestock production occurs.

*Ownership of livestock***.** In Mozambique, cattle customarily serve as a status symbol. Consequently only 4% of the population owns cattle. Low-income smallholder farmers keep livestock such as chickens, hens and pigs, whereas slightly more affluent smallholders can afford to rear goats, sheep and cattle.

Low agricultural productivity. Agriculture is categorised by low agricultural yields with farmers producing enough to meet their own consumption needs with little surplus left for commercial sale. Low agricultural productivity has been attributed to a number of factors listed below:

- Limited access to credit to purchase necessary inputs such as fertiliser and certified seed, (WFP, 2010) as a result of banks and other lenders viewing agricultural credit as risky, due to the limitations around using land as collateral as well as enforcement of contracts (USAID, 2011a).
- As a result, 95% of farmers do not make use of pesticides or fertilizers (Arlindo and Keyser, 2007).
- Limited access to by small holder farmers' to natural resources such as water. It is

estimated that 75% of Mozambican small holder farmers are resource poor (Mucavele, 2011).

- High costs associated with importing and transporting pesticides and chemicals to small holder farmers (GDS, 2005).
- Limited food crop markets (Arlindo and Keyser, 2007).
- Low adoption of yield increasing technologies (Arlindo and Keyser, 2007).
- Majority of agricultural production is 'rain fed'. There is limited irrigation infrastructure with only 11% of households having access to irrigation facilities (Arlindo et al, 2007). Total irrigated area in Mozambique is about 3% of its potential (World Bank, 2006).
- Poor road infrastructure and networks (World Bank, 2006).
- Limited technical support and assistance to farmers (World Bank 2006).
- Lack of information concerning prices and agricultural markets which further hampers the development of the necessary agricultural value chains (USAID, 2011b).
- Limited access to basic agricultural inputs and equipment including storage houses, cold rooms and so on (USAID, 2011b).
- Communication access and coverage is limited, particularly in the rural areas, (USAID, 2011b).
- Extreme weather conditions including droughts (most common natural disaster occurring mainly in the Southern and Central regions), floods (also occurring in Southern and Central regions), tropical cyclones, and sea water inundation (Government of Mozambique, 2011). In the last 50 years, the country has experienced 68 natural disasters which have affected 28 million people and killed 100,000 (Government of Mozambique, 2011). Almost 50% of the population is exposed to one or more extreme weather condition (Coughlin, 2006).
- The agricultural sector accounts for only 4% of the country's total budget (World Bank, 2006). Government has indicated a commitment to increase support to this sector to 20% of national budget.

Box 15. Definition of small holder, medium and large scale commercial farmers in Mozambique

Farmers in Mozambique are defined according to the size of land they use.

1. *Small holder farmers*: Use 10 hectares or less of land and mainly farm basic food crops. In 2003, it was estimated that small holder farmers cultivated 4.5 million hectares of land.
2. *Medium farmers*: Use between 10 to 50 hectares of land and they also farm basic food crops.
3. *Large commercial farms or enterprises*: Use more than 50 hectares of land and they mainly farm cash crops.

Source: (World Bank, 2006)

Main coping strategies used by small holder farmers. There are a number of coping strategies employed by small holder farmers in the event of poor harvests and natural disasters or unfavourable weather. These include:

- Sale of assets;
- Reducing the number of meals consumed;
- Consumption of wild fruits and plants (Bias and Donovan, 2003).

Reaching farmers (or individuals in the agricultural sector). While there was no indication of any formal insurance usage within this group and only 42,000 farmers are banked, a high proportion of farmers (76%) earn less than USD $2.50 per day, making them potentially unviable on their own as a target group for microinsurance.

Out-grower scheme based value chains may be leveraged for distribution. There are global examples of large agricultural producers and input providers offering insurance products protecting farmers in the event of crop failure. Such insurance products either reimburse input costs or the expected revenue from harvest. Examples of such agricultural insurance products include the Kilimo Salama product in Kenya which is a weather index insurance product covering farming inputs. Out-grower based schemes have become an important feature of the Mozambican agricultural value chain. Large firms contract with individual farmers for the guaranteed purchase of their output in return for credit and other inputs including certified seeds and training. The largest schemes in the cotton and tobacco industries have contributed to increased yields in these crops (World Bank, 2006). These schemes could provide insurance on a group basis.

- **Cotton** - The main firms operating within the cotton industry's value chain include Cottco, CNA (Tete, Sofala and Manica), Dunavant and Agrimo (Zambêzia) and Plexus (Cao Delgado). There are 17 cotton ginneries in the country, the predominant one being The Cotton Ginner's Association (GDS, 2005). Dunavant has 40,000 farmers in its scheme.
- **Tobacco** – Tobacco is one of the country's most important agricultural exports. The companies operating in the tobacco value chain include Universal (operating as Mozambique Leaf Tobacco – MLT) and Alliance One (Hanlon, 2006). Mozambique Leaf Tobacco is the largest producer, buyer and exporter of tobacco in Mozambique managing 120,000 farmers under its out-grower scheme.
- **Cashew nuts** –There are between 850,000 and 1million small holder cashew tree farmers with 65% of production in the Nampula region and multiple players in the value chain. Cashew seedling distribution is performed exclusively by a public sector agency, INCAJU, and there are approximately 22 to 25 processors in the country (14 of which are operating in the Nampula province). Main processors in the Nampula province include Condor Caju Lda, Condor Nuts, Koroxo Lda and Miranda Industrial Lda. Agro Industrias Associadas Lda (A.I.A.) is a company established by nine Mozambican processing firms that jointly market cashew kernels under the name "Zambique." The industry is also supported by NGOs as well as the donor GIZ (MEDA, 2011).
- **Cottco and the different cashew nut processing plants together provide 42 additional distribution points**.
- **Paprika –** Cheetah Mozambique operates mainly in the Tete province and has 3,000 farmers under its scheme. Farmers are sub-divided into groups of 15 to 20 farmers each registered with Cheetah. Another company operating paprika out-grower schemes in Chimoio is Pimentas de Mozambique (ECI, 2006).
- **Potatoes** – CABAM is an association of commercial potato producers operating in Chimoio in the Manica Province. The association's membership requirements include having access to irrigation facilities and a working tractor, amongst others, before joining.

Seed suppliers form critical part of value chain and may also be leveraged for distribution. AgDevCo, Mozambique's premier seed producer and distributor, currently supplies seeds to over 120,000 farmers within the Beira Corridor. It plans to expand seed provision to farmers in the rest of the country and to expand its production and processing hubs so that it can provide seed to medium and large scale farmers in the country (AgDevCo, 2011).

Box 16. Weather index insurance initiatives in Mozambique[144]

At present there are a number of weather index insurance initiatives across Mozambique. While some are at a developing stage, there are others that are currently on the market. These are being led by both donors and commercial providers including banks and insurance companies.

- ***Guy Carpenter and the IFC***. The International Finance Corporation and Guy Carpenter under the Global Index Insurance Facility[145] have partnered for the development of a weather index microinsurance product in Mozambique. While the product is still being developed it is set to be introduced to the market in early 2012.

- ***Standard Bank and Global Alliance*.** Standard Bank Mozambique offers a weather index insurance product with Global Alliance.

- ***African Development Bank.*** The African Development Bank in partnership with the government of Mozambique has conducted a weather index feasibility study to assess the possible introduction of a weather index microinsurance product possibly in 2012.

Figure 29 below shows the potential opportunity to be leveraged by reaching farmers through large agricultural producers and processors.

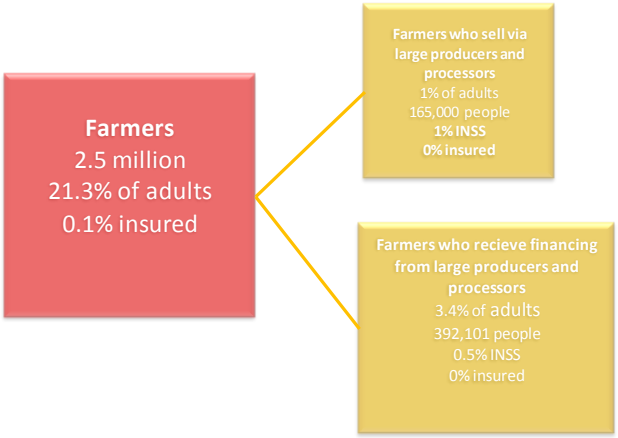

Figure 29. Opportunity for microinsurance distribution through large agricultural producers and processors

Source: FinScope Mozambique, 2009

Farmers who interact with large agricultural producers and processors. Analysis of the FinScope data shows that almost 400,000 farmers (16% of farmers) receive some form of funding from a large agricultural producer or processor. Of these, less than 1% have insurance. There could be potential for scale and reach through these channels.

[144] Not exhaustive, refers to initaitves that we are currently aware of.
[145] A program under the IFC promoting access to insurance against weather risks, natural disasters, livestock herders and others across Africa.

Barriers to distribution via this channel. No explicit barriers are identified. Agricultural players may not be aware of or prioritise insurance. The ISSM could consider articulating this channel in a regulatory amendment to signal intent to the market. It could also facilitate discussion with insurers to demonstrate the opportunity of using this channel as a distribution network. In Zambia, FinMark Trust conducted research which highlights the relationship between an insurer and a cotton ginning association. Given low-incomes and vulnerability of farmers it would be critical to ensure appropriate product design that benefits the farmers.

Key MFIs signal growing interest in agricultural lending. As most MFIs started their activities in urban areas, only a few offer agricultural loans. Hluvuko entered the market in 1995 in Maputo Province, followed by CCOM in 1999 in the Chokwé area and in the Cabo Delgado cotton area. RCRN entered in 2006, ProCredit in 2007, BOM in 2009 and FDM in 2010. However, agricultural lending still forms an extremely small share of the total portfolio of the microfinance sector, but providers claim they will expand not only the volume of loans but also the proportion of agricultural lending to total lending during the next few years. ProCredit hopes to dedicate 30% of its portfolio to agricultural lending as it considers agriculture as a promising market. This presents an opportunity for insurers to partner with the MFI sector in distributing insurance (not only agricultural but microinsurance in general) to farmers.

7.7. Health insurance and leveraging the health sector to extend microinsurance

In this section we focus on the general health of the population, health services and health financing. The intention is to understand the structure and nature of the health sector and how this promotes or inhibits the development of health insurance products, and further how it can be used as an alternative microinsurance distribution channel.

Limited access to health services for the majority of the population. While there have been improvements in the provision of health care, a large portion of the population still remains unable to access these services:

- 40% of the Mozambican population *does not have access to basic health care* (WHO, 2010).
- 55% of health facilities *regularly run out of medical stock*, and 41% o*ften lack running wate*r (The United States Global Health Initiative, 2011).
- 50% of the population has access to *an acceptable level of health care* (WHO, 2010).
- 36% of the population has *access to health care within a radius of 30 minutes* (WHO, 2010).

FinScope Mozambique helps us to assess access to health care. 60% of the respondents indicated that they live within an hour of some form of primary health care facility, which is defined as a health centre, a health post or a dispensary offering basic health care. Only 25% of adults live within an hour of a hospital whether general, provincial, central or rural. That is, 75% of adults have to travel more than one hour when seeking secondary or advanced health care.

Limited access to health care exacerbated by low numbers of health personnel. For every 100,000 people there are only 3 doctors and 21 nurses. In 2009 it was estimated that there were 500 doctors serving the whole country (USAID, 2009).

Political history influences structure of the health sector. The landscape of the health care sector has been influenced by the country's political history during which, at the onset of independence in 1975, as with other sectors in the country, it was nationalised. At present the government is still the dominant provider of health services with 95% of Mozambique's health care provided for by the public sector (ODI, 2010). All donor efforts and contributions to the sector (in terms of medication, health personnel and other resources) and development loans are channelled via the state (via the World Health Organisation supported Health SWAp). There are no large private health care networks at present but in recent years the country has seen the development of a small private health care system in the larger urban centres, in particular Maputo. The sector is currently growing but its growth is dependent on increases in income. There is also a non-allopathic sector dominated by traditional medicine practitioners, herbalists and others with which the government is in favour of collaborating (WHO, 2009 and WHO, 2010).

Four levels of referral within the Mozambican health care system. There are four levels of referral. Levels I and II (1,080 centres with 10,400 beds) include health posts, health centres and district hospitals. Health posts and health centres provide basic and primary care. Most district hospitals are able to offer basic diagnostic services including microscopy, blood counts, biochemistry and X-rays, as well as surgical and obstetric services. Level III is provincial hospitals which offer greater diagnostic and curative services and includes training centres for provincial health staff. There are seven such hospitals with 1,800 beds. Level IV is hospitals (three in total) located in each of the urban centres namely Maputo, Beira and Nampula which serve as the major referral centres for southern, central, and northern Mozambique, respectively, and offer advanced health care services. They have 2,900 beds, half of which are in Maputo.

Large but declining dependency on external health funding. Up to 50% of government spending on health is from external sources namely donor agencies. In addition, Mozambique is one of the few countries receiving health budget support directly from the European Commission (Action for Global Health, 2011). Over the years, the donor share of the country's health budget has decreased significantly from 73% in 2008 to approximately 50% in 2010 (Action for Global Health, 2011).

Bulk of health expenditure is on preventive and curative care. According to a National Health Accounts Survey, approximately 73% of health expenditure between 2004 and 2006 was directed towards preventative and curative care. Only 10% of health expenditure was in respect of medical equipment and supplies (WHO, 2010).

Health policy framework. Absolute Reduction of Poverty (PARPA III) states that the improvement of health services, particularly for the rural population, is one of the key government priorities (Action for Global Health, 2011).

Health care administration by Ministry of Health. The Ministry of Health, Provincial Health Directorates and District Health Directorates administer health in Mozambique. In addition the country's health budget is controlled by the Ministry of Health.

Providing cover for health events. As only 1.2% of the population have health insurance there is potential to offer hospital cash plan products, covering multiple expenses (i.e. travel costs, medication costs) or loss of income of the individual while hospitalised. Such a formal health insurance product could be used in both the private and public sectors, with greater scope in urban and peri-urban areas due to better health infrastructure. Challenges related to access to health care facilities do however need to be overcome for these products to have any value.

Utilising health care facilities to distribute insurance. Currently hospitals are not permitted to distribute insurance. We examine this in more detail under the Regulatory section below.

8. Conclusions

In this section we summarise the key outcomes of this analysis, concluding with the immediate opportunities for microinsurance development that we have identified:

- Developing economy and key advances in the financial sector landscape creates an ever-growing insurance market;
- Small but rapidly growing insurance sector seeks to diversify and innovate products and distribution;
- Mozambicans' show strong demand for formal risk-pooling mechanisms;
- Regulator seeks to provide room for innovation through new regulation;
- Within reach market segment could significantly extend access to insurance.

8.1. Developing economy and key advances in the financial sector landscape creates an ever-growing insurance market

Very small but growing market for insurance expansion. In 2010, 54% of the Mozambican population lived below the extreme poverty line of USD $1.25 per day, a significant reduction from the 76.5% in 2003. The reduction in poverty has been attributed to steady real growth in GDP and corresponding income per capita[146] growth. In addition, increases in real minimum wages across industries – another indicator of affordability – signals a growing market for insurance expansion. Lastly, Mozambique is experiencing a growth in employment in the formal (salaried) sector, which, considering that in 2009 only 18.7% of formally employed salaried individuals had formal insurance, signals a significant un-tapped insurance market that continues to grow in size and affluence.

Concentrated economic development and client aggregation opportunities present opportunity to bridge infrastructure challenges. Industry consultation revealed challenges and high costs associated with targeting potential insurance markets outside of economic centres, due to the limited physical infrastructure (telecommunications, road and airport) and low population density. However, a large portion of economic activity is taking place in both the more rural and urban areas in the accessible Southern provinces of Mozambique. Further, FinScope Mozambique data shows that the use of informal financing mechanisms, MFI membership, use of bank accounts and cell phone ownership is skewed towards the southern provinces of Sofala, Inhambane, Gaza, Maputo Province and Maputo City. Given the challenges in achieving low-cost distribution of microinsurance products at scale, it is justified to turn the initial focus onto these regions with the long-term goal of expanding beyond them.

Rapid expansion of banking and payment systems coverage. The financial sector (and in particular the banking and payments sector) has seen significant expansion in the last two decades albeit from a very low base. This is represented by a significant increase in the number of banks – from 3 in 1987 to 19 in 2011 – and a corresponding expansion in the number of branches (416), ATMs (702) and POS devices (4861). These developments have led to increases in the number of districts served (45% in 2009 compared to 22% in 2006). This trend is set to continue with government setting targets to service 80% of the 58 districts in Mozambique by 2017. While the current infrastructure does not compare

[146] Income per capita (measured in USD per capita) increased by 173% between 1992 (end of the civil war) and 2010 (latest available data).

favourably with peer countries in the region, the momentum of the expansion of the financial sector's footprint will provide new opportunities for insurance development.

Mobile banking set to change the financial inclusion landscape. The launch of mCel's mKesh in September 2011 and Vodacom's mobile banking initiative in Q2 2012 could significantly change financial services delivery in Mozambique. mKesh experienced significant growth immediately following its launch, with 20,000 registered clients in the first two weeks of operations. In this same period mCel had acquired an agent network of 2,700 cash merchants. While mCel will face multiple challenges to achieve take-up, scale and persistent usage it could present a significant opportunity for improved access to insurance through the sale of insurance, via the mobile device or agent network, and premium collection through the mobile wallet.

Developments in payment systems will ease premium collection but branch-level compliance needed. The Bank of Mozambique is currently in the process of setting up a national switch (SIMO). This intervention could see significant reduction in inter-bank transaction fees and thus reduce the cost of premium collection through this channel. However, industry consultation revealed that non-compliance by bank staff in appropriately referencing deposits leaves financial providers unable to match payment to client. This practice could hamper insurance companies in effectively making use of this payment system development.

Stagnant MFI sector dominated by microfinance focused commercial banks with varying degrees of interest in microinsurance. The microfinance sector saw strong growth from its inception in the late 90s, but has stagnated and even declined in 2011. The number of loan clients declined from a high of 96,000 in 2009 to 75,000 clients in 2011. Of these MFI institutions, commercial banks focused on microfinance business accounted for 54% of microcredit clients and 98.5% of depositors. While industry consultation revealed that only BOM currently provides insurance products (11,333 credit and 95,789 deposit clients), Tchuma signalled strong interest in microinsurance (9,490 credit and 28,613 deposit clients). Socremo (11,717 loan and 11,021 deposit clients) was not considering the roll-out of insurance at this stage and ProCredit (10,635 loan and 108,169 deposit clients) indicated that microinsurance did not fall within its core focus area at this time.

8.2. Small but rapidly growing insurance sector seeks to diversify and innovate products and distributions

Small but rapidly growing insurance sector. The insurance sector in Mozambique is small with low-levels of insurance penetration (1.32% of GDP) and only eight registered insurance companies and one registered reinsurer. The sector has however seen rapid growth, with the issuing of six new insurance licences over the last decade. The insurance industry – measured in gross premiums collected – grew by c. 30% (2007 – 2010). This growth has significantly exceeded that of the entire country (measured in GDP), increasing insurance penetration from 0.85% in 2007 to 1.32% in 2010.

Profitable and solvent insurance industry with upward pressure on expense ratios. The supply-side analysis revealed a profitable and solvent insurance sector. While performance varies across industry players, the industry as a whole performed well with an average – combined life and non-life – return on equity ratio of 13% for 2009. The industry remains solvent with a ratio of liabilities to investment asset of 55% in 2009. The upward pressure

on aggregated expense ratios under the non-life licence (from 10% in 2007 to 19% in 2009) signals an increased cost of client acquisition.

Infant, but rapidly growing retail insurance industry suffers human resource constraint. Retail insurance product offerings to non-commercial entities are still in early phases of development in Mozambique. Retail distribution has, however, become a focus point for several insurance companies aiming to diversify distribution away from a broker dominated environment and we have seen significant advancements in bancassurance distributed insurance offerings by incumbent and foreign owned-insurers. Concerns over the industry's ability to further expand its retail offering are derived from the low numbers of agents and representatives registered with the ISSM. While no clear data on the number of skilled insurance staff exists in Mozambique, industry consultation signalled a skills shortage as a stumbling block to effective expansion.

Insurers signal interest in microinsurance market. Industry consultation and recent market development has signaled insurers' interest in the lower income market. This has been represented through insurers partnering with MFIs, such as the Hollard and BOM partnership, as well as EMOSE and Hluvuko; the use of agent sales forces to target community groups – by EMOSE and Austral; and the forging of Bancassurance partnerships. Further, insurance companies such as REAL and Hollard have signaled their intention to target the low-income market as part of their respective companies' regional strategies.

8.3. Mozambicans' show strong demand for formal risk-pooling mechanisms

Despite low levels of insurance usage, understanding and awareness, trust in insurance companies featured highly. In 2009, 2.3% of the adult population had some form of formal insurance, while 7.4% used some form of informal pooling mechanism (Xitique, Xitique geral, family association or funeral association). Of the remainder, 50% of adults indicated that they had not heard of insurance at all, while a further 23.2% had heard of it but did not understand how it works. FinScope Mozambique however indicates that 71.8% of MFI clients have heard of insurance and understand what it means. Higher levels of awareness of insurance products among MFI clients was confirmed by FGDs. Despite low-levels of understanding, FGDs signalled high-levels of trust in insurance companies with participants often recalling insurance companies by name (most featured: EMOSE, SIM and IMPAR).

Focus group discussants signalled a strong demand for formal risk-coping strategies for illness and death. Major insurable risk events emerging from demand-side research included illness, death, theft and fire. While informal mechanisms, such as family associations and funeral associations, assist in managing risk events related to illness and death, respondents signalled demand for more predictable and timely monetary assistance. The most common strategies deployed to manage risk is to borrow from friends and family followed by the disposal of assets.

Weak healthcare infrastructure limits the effectiveness of micro-health financing mechanism outside of urban centres. Mozambique suffers high incidences of Malaria, Tuberculosis and HIV/AIDS. Demand-side research clearly indicated a demand for managing the cost associated with illness. In 2009, 40% of Mozambicans did not have access to health services. Supplementary data from FinScope Mozambique indicated that only 25% of the population

live within one hour's walk of a hospital[147] and 36% of Mozambicans do not have access to transportation. Low levels of health-care access severely limits the value micro-health financing provides and the associated up-take that these products will enjoy. Attempts to innovate in the health financing space (i.e. the introduction of hospital cash plans) should take into account the realities of the country's health care infrastructure.

8.4. Regulator seeks to provide room for innovation through flexible regulation

Government signals a clear financial inclusion objective through flexible regulation. Various organs of state (DNPDR, Ministry of Finance, BM and ISSM) have signalled financial inclusion as a policy objective. Two developments could have a significant impact on access to insurance: government's intent to expand the reach of the banking sector to 80% of all districts in Mozambique by 2017 and the issuing of new insurance regulations that seeks to promote access to insurance by providing a flexible environment for underwriting and distribution. With an extremely limited retail insurance sector in Mozambique, microinsurance represents an opportunity to grow the retail insurance sector from a small base.

[147] This number increases to 60% of respondents when account for primary health-care.

	Permitted underwriting	Capital requirements	Who can Intermediate?	Training	Policyholder contracts and content concessions	Commissions	Supervisory taxation	Actuarial requirements
Microinsurance Regime	All insurers and microinsurers can underwrite the seven specific microinsurance product lines that have been earmarked. The ISSM is currently reconsidering these definitions.	Reduced capital requirements	All intermediaries including specific microinsurance intermediaries (banks, MFIs, mobile operators, retail chains (amongst others)). The legislation is silent on the role of promoters in the intermediation of microinsurance.	Registration and training requirements delegated to the insurer.	No concessions granted to microinsurance.	No structured commissions. The intermediary can freely negotiate commissions with the insurer.	1.5% for non-life and 0.35% for life	No requirement to hold the services of an actuary
Mainstream Regime	Those insurers that have existing composite licences may continue to do so. New entrants to the market can only underwrite either life insurance or non-life depending on their licence.	Higher capital requirements	Brokers, agents, promoters and bancassurance.	Registration and training requirements largely delegated to the intermediary, except in the case of the promoter and the agent (natural person).	Extensive and may be appropriate for the mainstream regime.	There are commission structures: 1. Brokerage 2. Intermediation 3. Collection Commissions are not capped	1.5% for non-life and 0.35% for life	Requirement to hold the services of an actuary

Table 20. Comparing the microinsurance regime to mainstream insurance regime

Source: Author's interpretation of Decreto-Lei No. 1/2010, 31 Dezembro de 2010 (Insurance Act) and Decreto No. 30/2011, 11 Agosto 2011 (Regulations)

The new insurance regulatory framework presents a modern and comprehensive framework, covering all aspects relevant to insurance underwriting and distribution. The ISSM has been proactive and deliberate in seeking to create a regulatory framework to facilitate development and have done a commendable job in achieving this. While we note some elements that will require further consideration, the acts provide a useful framework for microinsurance. Given the extent to which the Insurance Act has tried to accommodate multiple approaches, one of the key challenges will be to ensure that the various options are harmonised into an integrated framework. Specific attention will also need to be given to the implementation of regulation to ensure that the supervisory cost and compliance burden is minimised. The table below summarises the microinsurance concessions and compare these with the comparable mainstream insurance regime.

Facilitative regulatory regime. Through the ISSM and the DNPDR, there is widespread support for microinsurance development. Examples of facilitative elements include concessionary capital requirements on microinsurance, allowing for mutual insurers, a wide set of distribution channels, no restrictions on commission levels and, in general, the creation of a tiered regulatory regime appropriate to microinsurance. The microinsurance and low-income definitions within the microinsurance regime focus on wider access to insurance and are not merely on micro products. This may be leveraged further to develop enhanced regulation for the microinsurance regime, thus enabling a viable retail insurance sector.

Key elements in regulation. The Insurance Act demonstrates a flexible approach to regulating the microinsurance regime. Where there are instances of regulation that could constrain microinsurance development, they are mostly in the regulations and can be updated without amending legislation. The ISSM has indicated that it entity wishes to maintain a "test-and-learn" approach to microinsurance in the country. They have therefore carved out a position from which revisions can be readily made in line with market developments.

Aligned with Mozambique's reality. The Insurance Act appears to be well tailored to Mozambique's particular circumstances. The compliance burden generally seems to be calibrated to the domestic capacity.

Microinsurance weaved into the Insurance Act in an integral manner. Microinsurance has been fully integrated into the Insurance Act, creating a two-tier system for both underwriting and intermediation, including a concessionary regime for microinsurance. The approach leverages existing insurers while also allowing for new dedicated microinsurers. The authorised mainstream insurers and intermediaries can underwrite and distribute microinsurance without obtaining a separate licence and simply need permission to do so. Further, mainstream insurers with either a life or general insurance licence may underwrite composite microinsurance products. The microinsurance regime, nevertheless, still requires further amplification in the regulations, including benefit levels that still need to be calibrated and which is under consideration within the ISSM.

Removing a level of bureaucracy in the underwriting of microinsurance products. At present, mainstream insurance companies are required to seek authorisation from the ISSM before underwriting microinsurance products (article 4(3)). The ISSM could consider removing this authorisation and request insurers to notify them of what products they are underwriting for information and monitoring purposes as part of the development of microinsurance. There

is a need to improve the reporting system to facilitate the monitoring of the insurance sector.

Limiting product definitions. At the product level there are certain limitations. For example, life insurance within the microinsurance regime is limited to credit life. Further, the funeral insurance definition in the same regime is limited to expenses incurred for the funeral of the insured person, a formulation that can be confusing as it implies the exclusion of a choice between cash or in kind as is the current market practice for funeral products. The formulation could be reviewed to include benefits in cash or in kind. For both funeral and credit life to offer enhanced value, it may be appropriate to allow these products to extend beyond the coverage of debt or funeral costs. The health insurance definition, which restricts cover to hospitalisation, may preclude large portions of the population without access to hospitals. The definition could rather encompass access to official health services, either public or private. Further, the health insurance definition could be expanded to cover collateral expenses as a result of hospitalisation, including transport costs for the family to visit or loss of income due to hospitalisation.

Enabling multiple distribution channels for microinsurance. On the intermediation side, the Act has enabled multiple distribution channels that could catalyse the retail insurance in the country. It will be important to reconcile the wide variety of options introduced for the intermediation of insurance and microinsurance to ensure that a level playing field is created in line with the risk of the product and to avoid arbitrage.

Reconciling different approaches to ensure level playing field. There are apparent contradictions between the treatment of different intermediary categories in regulation. Some examples include:

- The rules of conduct within the general intermediation regime exempt bancassurance and microinsurance intermediaries. Further, whilst bancassurance and microinsurance intermediaries are free to negotiate their remuneration with the insurer, the other intermediaries must follow a certain commission regime. This opens up opportunities for arbitrage.
- Promoters are introduced as a category of intermediary for mainstream insurance but the Act does not make clear their scope of activities. Given the reduced compliance burden on promoters, it could result in regulatory arbitrage if their activities are not clearly defined. It also seems counterintuitive that promoters, as an enabling element in the regulation of mainstream insurance, have not been included in the list of microinsurance intermediaries.
- As a result of the above arbitrage opportunities, agents will be less likely to be used.

Simplified policy content and contracting required. Where specific exemptions are not provided for microinsurance, the provisions applicable to mainstream insurance apply with equal force to microinsurance. For example, no concessionary regime is created for insurance policy contracts (including the requirement to deliver them) making these potentially onerous and costly for microinsurance purposes. Approaches to simplified contracting and content of policies to support microinsurance development have been explored in other countries, most notably in Brazil with the enabling of tickets (or

bilhetes).[148] The ISSM is aware of this problem and is considering how to tailor microinsurance policies appropriately.

Enabling microinsurance intermediaries to not be restricted by single insurer partnerships. The Insurance Act stipulates that the "specific" microinsurance intermediaries (i.e. MFIs, NGOs, banks, MNOs etc.) can only intermediate for a single operator in either life or non-life (article 57(3)). This should be reviewed and would require a regulatory amendment to enable microinsurance intermediaries to have partnerships (multi-tied) with different insurance companies for respective products to enable healthier competition in the market.

8.5. Segmentation approach for extending access to insurance

This study concludes that the market could be extended through a number of opportunities shown in **Error! Reference source not found.**. While all of these are considered as potential opportunities for expanding insurance, they have different potential impacts and not all are readily accessible. Some of the key distribution opportunities are outlined in section 7 above. As a guide, **Error! Reference source not found.** colours the opportunities according to whether they are considered **within reach, hard to reach** or requiring **innovative distribution**

Please note that these opportunities overlap as they represent different channels to reach the same categories of clients.

Please see Figure 31 in Appendix H: for a snapshot of the opportunities presented.

We proceed by explaining the rationale for the segmentation approach used and then proceed to apply the segmentation tools to the pockets of opportunities identified.

8.5.1. Segmentation approach

The purpose of this analysis is to divide the market into segments that are useful to assist in exploring opportunities. In devising their marketing strategies and deciding whom to target, insurers are typically concerned with (i) the regularity and level of a client's income; (ii) how to reach potential clients; and especially in the Mozambican case, (iii) the collection of premiums. Accordingly our segmentation approach considers two elements: income (level, regularity and certainty) and channel or aggregator.

Level and regularity of income: The level of income is a key determinant of being a viable consumer of insurance. Regularity and certainty also have a substantial impact given the traditional requirement of insurance for regular (even if not frequent) and set premium contributions.

Consultations with the industry revealed that it regards individuals with incomes exceeding USD $5 per day as sustainable insurance clients. Applying this estimate, we have divided the

[148] A *bilhete* (or ticket) is a simple policy with no underwriting performed. It can be purchased like a "travel ticket". A ticket automatically creates a standardised insurance product where the insurer has no option to analyse the individual risk characteristics of each client, but can only do so for the "ticket" group as a whole. Tickets therefore by implication relate to group and open group policies. The client, likewise, cannot choose the particular risks covered or level of cover, but must adhere to the standard terms of the ticket.

various income bands as presented in FinScope Mozambique into various 'profitability groups' (note that FinScope Mozambique uses *highest source of income*[149] as a proxy for regularity and level of income).

- **Unsustainable –** comprised of individuals who earn USD $0.50 or less per day. Individuals within this group have incomes that would be considered unviable for insurance business.
- **Challenged sustainability**– this group is comprised of individuals earning between USD $0.50 and USD $2.50 per day. Individuals within group have income levels that are too low to be considered sustainable by insurers however a significant portion of this group is banked. 30.7% of the banked or c. 270,000 adults fall within this group. While their incomes would be considered as unviable, insurers could still reach these clients via the bank touch point.
- **Low sustainability** - Those earning between USD $2.50 and USD $5 per day.
- **Sustainable** –comprised of people earning above USD $5 up to USD $50 per day and would be considered as sustainable clients by insurers.
- **Premium sustainability**–comprised of individuals earning over USD $50 per day.

Channel/Aggregator: These may range from groups that may allow some level of aggregation for sales purpose (e.g. formal employment) to channels that may distribute beyond their immediate client base and may even facilitate premium collection (e.g. MFIs and cell phone networks).

Within reach, innovative distribution and hard to reach. Based on the regularity of income and the likely touch points and the scope for premium collection presented by their banked and mobile phone ownership status, we proceed to segment consumers into three categories from an insurance opportunity point of view namely **within reach, innovative distribution** and **hard to reach.**

- Clients falling into **within reach** category are those that are potentially within reach through various touch points who have regular sources of income such as a salaries or wages.
- Those who fall within the **innovative distribution** category may have consistent income flows but may not be easily accessible through formal channels like a bank account. This group may require innovative methods to reach. Examples of individuals that would fall within this group include blue collar workers (that receive salaries and wages) but are unbanked.
- Those who fall within the **hard to reach** group do not have regular income flows or are difficult to access. As a result, insurers would find this group difficult to reach.

In the final analysis we apply the segmentation approach to a series of potential market opportunities to identify those that have the most promise to pursue in the immediate future.

[149] FinScope Mozambique does not ask about main source of income but rather asks about highest source of income.

8.5.2. Source of income

The FinScope Mozambique survey identified six sources of income as listed below (and categorised respondents according to highest income source) (see Table 35 in Appendix J: for detailed breakdown of income for these employment categories).

- **The biscato or piece job worker** – *(10.0% of the adult population or 1.1m people).* 76% earned less than USD $2.50.
- **The farmers** – *(21.3% of the adult population or 2.5m people).* 75% of farmers earn USD $2.50 per day or less. The farmers also have low financial services penetration, with effectively no-one reporting to use formal insurance or bank products.
- **The formally employed** – *(9.4% of the adult population or 1m people), i.e.* those that receive wages, salaries or a pension from an employer. As expected, the blue collar workers have a higher level of income than the other segments but a substantial proportion earns a very low income. 19.6% of the group earn less than USD $0.50 per day (50,000MT per annum).
- **The small business man** – *(14.32% of the adult population or 1.6m people).* This group has the second highest level of income within the various segments. 39% earn USD $0.50 per day or less, and 32% earn between USD $0.50 and USD $2.50 per day.
- **The adult dependents** - *(43.2% of the population or 5m people),* those that are dependent on others for income. 42% of this category earned less than USD $0.50 per day or 5,000MT per annum. Interestingly this category has the highest level of cell phone use as it makes up almost half of cell phone clients.
- **Other income** – *(1.9% of adult population or 217,155 people),* are people who have sundry sources of income from other sources including rental income, income from the provision of financial services to the community and receiving money from an NGO.

8.6. Exploring the within reach, hard to reach and innovative distribution segments

Applying the segmentation approach outlined above, categorised results are shown in Table 21 below.

Total Adult Population = **11.48 million**	**Total % of adults**	**% Formally insured**	**Banked**	**Unbanked and own a mobile phone**	**Unbanked and don't own a mobile phone**
			(% adults)	**(% adults)**	**(% adults)**
Blue collar	*9.4*	*18.7*	3.7	2.2	3.5
Small business man	*14.3*	*1.36*	0.9	2.3	11.2
Biscato or piece job worker	*10.0*	*1.09*	0.7	1.8	7.5
The farmers	*21.3*	*0.1*	0.4	1.2	19.7
Other income	*1.9*	*0*	0.1	0.3	1.4
The adult dependents	*43.2*	*0.5*	1.8	7.1	34.3
		Total	**7.6**	**14.9**	**77.5**

Table 21. Segmentation by main source of income, banking status & mobile phone ownership

Source: FinScope Mozambique, 2009

Key: Within reach | Innovative Distribution | Hard to reach

Table 21 above renders the following insights:

- 3.7% of adults (c. 425,000 people) are classified as **within reach** – as seen in Table 21 shaded green. They fall into the higher income categories and have regular sources of income, namely salaries and wages, and already have a bank account. Hence there is the scope to reach them and regular premium can be collected in forms other than cash.
- 8.8% of adults (c. 1 million people) are classified as **innovative distribution** – as seen in Table 21 above and shaded in orange. While we find farmers, adult dependents, small business men and biscato or piece job workers who are banked, many have inconsistent, unpredictable and low incomes. However, some that are unbanked may have access to mobile phones which could be used as a premium collection tool or point of communication with clients, and the higher income earners in the category with consistent incomes i.e. those that are formally employed may be the target market in this regard.
- 87.5% of adults (c. 10 million people) are classified as **hard to reach** seen in Table 21 shaded in red. The bulk of them do not have a point of contact like a mobile phone or bank account and neither do they have consistent or predictable sources of income. It will present a substantial challenge to serve this category on a commercial insurance basis unless there are obvious aggregators such as farmers' associations or agricultural value chains and informal traders' associations. The bulk of the hard to reach segment falls within the low-income category as 42% indicated that they earn less than USD $0.50 per day (less than 5,000MT per annum) versus the within reach who are more affluent as only 9% indicated they earn less than USD $0.50 per day (less than 5,000MT per annum).

FinScope Mozambique allows us to further analyse the individual clusters to gain an understanding of their income distributions, insurance usage and MFI membership.

Table 22 below shows an overview of the profile of each of the different clusters.

Within reach	Innovative distribution	Hard to reach
81% live in urban areas	54% live in urban areas	30% live in urban areas
9.4% earn less than USD $0.50 per day	25% earn less than USD $0.50 per day	45% earn less than USD $0.50 per day
30.7% earn between USD $0.50 and USD $2.50	37% earn between USD $0.50 and USD $2.50	22% earn between USD $0.50 and USD$2.50 per day
26.7% earn between USD $2.50 and USD $5 per day	17% earn between USD $2.50 and USD$5 per day	4% earn between USD $2.50 and USD$5 per day
35% indicated they earn more than USD $5 per day	6.9% indicated they earn more than USD $5 per day	1.9% indicated they earn more than USD $5 per day
9% are members of an MFI	4.5% are members of an MFI	0.6% are members of an MFI
34% have formal insurance	7% have formal insurance	0.4% have formal insurance
20.4% have any form of life insurance	3.9% have any form of life insurance	0.2% have any form of life insurance
5% are members of an informal risk group	4.6% are members of an informal risk group	1.5% are members of an informal risk group
82% own a cell phone	59% own a cell phone	14.6% own a cell phone

Table 22. Profile of within reach, innovative distribution and hard to reach clusters

Source: FinScope Mozambique, 2009 and author's own calculations.

Within reach cluster easiest to reach. Table 22 above confirms that the within reach cluster is practically the easiest to reach. This cluster is more affluent, has the highest level of cell phone penetration, and a large majority reside in urban areas. Important to note is that the within reach category still include a large number of low-income consumers. The hard-to-reach category is concentrated within the very low-income segments as 45% earn less than USD $0.50 per day (5,000MT per annum). From the table it is clear that there is a strong correlation between the categorisation and indicators such as income, MFI membership, cell phone ownership and level of urbanisation.

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List of organisations and individuals consulted

The following list details the organisations and persons met during the in-country consultation period of the diagnostic study in September 2011.

Organisation	Person met	Position
African Development Bank	Yolanda Arcelina	Social Sector Specialist
Alexander Forbes	George Mathonsi	Managing Director
Alexander Forbes	Luiz Pereira	Director of Markets Development
Association of Microfinance Operators (AMOMIF)	Ricardo Taca	Executive Director
Austral Seguros	Bernado Cumaio	Chief Executive Officer
Austral Seguros	João Massango	Accountant
Banco ProCredit	Yann Groeger	General Manager
Barclays Bank Moçambique	António Ribeiro	Head of Finance
Carteira Movel	Nadean Szafman	Managing Director
Carteira Movel	Joel Pitta	Sales Manager
CCOM	Enoque Raimundo Changamo	General Manager
EMOSE	Fernando Baloi	Director of Services
EMOSE	Usairo Mohamed	
Fundo de Apoio a Reabilitação da Economia (FARE)	Augusto Pedro Isabel	General Director
Fundo de Apoio a Reabilitação da Economia (FARE)	Rufino Duvane	Director of Planning Services, Studies and Projects
Fundo do Desenvolvimento da Mulher (FDM)	Anna Maria Da C Salvador	Executive Director
GFA Consulting Group	Marielle Ziedler	Team leader
Global Alliance	Ruan Kotze	General Manager Retail Divison
Global Alliance	Allastair Langford	Manager Life
Hollard Seguros de Moçambique	Israel Muchena	Technical director
Impar	Rui Oliveira	Administrator
INSS (National Social Security Institute)	Hinorelina Maria Ernesto	Director
ISSM (Mozambican Insurance Supervision Institute)	Domingos José	Insurance Inspector General
ISSM (Mozambican Insurance Supervision Institute)	Xavier A. Chongo	Head of Licensing and Research
ISSM (Mozambican Insurance Supervision Institute)	Rui Tsevete	Head of Legal Department

Organisation	Person met	Position
ISSM (Mozambican Insurance Supervision Institute)	Alice Azarias	Head of Auditing and Supervision Department
ISSM (Mozambican Insurance Supervision Institute)	Abílio Sigaúque	Legal Department
ISSM (Mozambican Insurance Supervision Institute)	Lodovina Chilengue	Legal Department
ISSM (Mozambican Insurance Supervision Institute)	Francelia Sitoe	Licensing and Research Department
KfW	Tania Bila	
Millenium Seguros	Nuno Gois Silva	Actuarial Director
Moçambique Companhia de Seguros	André Durão	Técnico Comercial
Moçambique Resseguros S.A. (MOZRE)	Mufaro Chauruka	Chief Executive Officer
Moçambique Resseguros S.A. (MOZRE)	Chalo Ng'ambi	General Manager
Momentum	Helder Lacenda	Business Development
National Directorate for the Promotion of Rural Development (DNPDR)	Leia Bila	Project Coordinator Developing an Inclusive Financial Sector in Mozambique
Real Insurance	George Sithole	Executive Director
Real Insurance	Kevin Gurure	Underwriting Manager
SOCREMO	Benajmin Botha	General Manager
Standard Bank	Marcelino Botão	Agribusiness Manager
Standard Bank	Shakir Abdul Aziz	
Tchuma Bank	Gildo dos Santos Lucas	Manager
The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)	William Diaz-Alvarado	Sustainable Economic Development Manager
The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)	Johanna Bollhorst	
The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)	Katherine Seelige	
United Nations Captial Development Fund	Oumou Sidibé van Hoorekeke	Chief Technical Advisor
United Nations Development Programme	Gabriel Dava	Program Manager

Organisation	Person met	Position
United Nations Development Programme	Utako Saoshiro	Programme Analyst - Poverty Reduction Unit
Vodacom	Luis Cabaço	Commercial Manager - Products & Services
World Bank	Mazen Bouri	Senior Private Sector Development Specialist
Banco de Mocambique	Otilia Zualo	Supervision department

Appendix A: IAIS Definition of microinsurance

Box 17. The 2007 IAIS –CGAP Definition of Microinsurance Supervision

The microinsurance activity should fall within the purview of the relevant domestic insurance regulator/ supervisor or any other competent body under the national laws of any jurisdiction.

Microinsurance and Social Welfare

Microinsurance does not include government social welfare as this is not funded by premiums relating to the risk, and benefits are not paid out of a pool of funds that is managed based on insurance and risk principles. For the same reason, it does not include emergency assistance provided by governments in, for example, natural disasters, floods/fires in low-income townships, etc. However, as risk manager of last resort, the State may determine that there is a need to sponsor access to microinsurance for the most underprivileged through redistributive practices. There are cases where the State plays a stronger role in fully funding schemes, but these would only be considered microinsurance if they are run according to insurance principles. Social assistance in China, aside from transfers, is run according to insurance principles.

Risks Covered

Microinsurance covers a variety of different risks, including illnesses, accidental injuries, and death and property loss – basically any risk that is insurable, and which insurance is designed to be appropriate in terms of affordability and accessibility to low-income households. Insurance can be offered as a single risk product or as a bundled risk product. Coverage can also be provided on an individual or group basis.

Microinsurance Products

Microinsurance encompasses a broad variety of products, for example, life insurance, funeral cover, health, invalidity, property, livestock, crop and asset insurance. The range of microinsurance products is almost as varied as that of conventional/commercial insurance. Existing insurance product types have been re-engineered to accommodate the needs of low-income households and their specific requirements. Though the array of microinsurance products on offer is wide, in many cases they are limited to some form of life and health microinsurance. The reason for the former is primarily that of microinsurers preferring life cover because of the lower cost structure and limited risk, and the efforts of microlenders to protect their assets. The emergence of health microinsurance is largely attributable to the promotion of alternative social protection mechanisms, such as the health mutuals in West Africa.

Source: The 2007 IAIS-CGAP Issues Paper on the Regulation and Supervision of Microinsurance

Appendix B: Selected banking sector data

Bank	Ownership	Nature of operations
Banco Internacional de Moçambique, SA. (BIM)	Majority Portuguese capital	Full service
Banco Comercial e de Investimentos, SA. (BCI)	Majority Portuguese capital	Full service
Standard Bank, SA.	Majority South African capital	Full service
Barclays Bank Moçambique, SA.	Majority South African capital	Full service
The Mauritius Commercial Bank Moçambique, SA. (MCB)	Majority Mauritius capital	Full service
First National Bank Moçambique, SA. (FNB)	Majority South African capital	Full service
International Commercial Bank (Mozambique) SA. (ICB)	Majority Malaysian capital	Full service
Moza Banco, SA.	Majority Macau capital	Full service
African Banking Corporation (Moçambique), SA. (BancABC)	South African and International Finance Corporation (IFC) capital	Private, investment banking, asset management and treasury services
United Bank for Africa Moçambique, SA. (UBA)	Majorty Nigerian capital	Full service
Banco Único, SA.	Majority Portuguese capital	Full service
Banco Terra, SA.	Mozambique financial firm, Gapi, Netherlands-based Rabobank and two development institutions, KfW (Germany) and Norfund (Norway).	Full service
Banco Mercantil e de Investimentos, SA.	---	Investment banking
Banco Nacional de Investimento (BNI)[150]	Mozambican and Portuguese Government capital	Investment banking
Banco ProCredit, SA.	German and IFC capital, with a small share owned by the Government of Mozambique	Microfinance focused commercial bank
Socremo Banco de Microfinanças, SA.	Africap and NordicMicroCap capital	Microfinance focused commercial bank
Banco Oportunidade de Moçambique, SA.	Opportunity International capital (fundraising partners in the United States, Australia, Canada, Germany and the United Kingdom)	Microfinance focused commercial bank
Banco Tchuma, SARL.	100% Mozambican capital (2 major investors, staff and former cooperative's members)	Microfinance focused commercial bank
Carteira Móvel, SA. (branded Mkesh)[151]	Mozambican Capital (Mcel + IGEPE)	e-money provider

[150] Banco Nacional de Investimento (BNI) was set up by the Mozambican and Portuguese governments under agreements reached last year. The Portuguese and Mozambican states each hold 49.5 per cent of the capital of the BNI. The third shareholder, with one per cent, is the Banco Comercial de Investimentos, SA. (BCI), which is the second largest commercial bank in Mozambique. Available at: (http://allafrica.com/stories/201101310177.html)

Table 23: Banks operating in Mozambique

Source: Teyssier, 2011

	Total Assets (MT) Billions (2009)	Total Assets (MT) Millions (2008)	Total Assets (USD) (2008) Millions
Banco Internacional de Moçambique	48.3	35,477,276	1,338,765
Banco Comercial e de Investimentos	34.7	23,829,899	899,241
Standard Bank	25.7	21,360,549	806,058
Barclays Bank Moçambique	9.3	7,947,422	299,903
African Banking Corporation	---	2,667,065	100,644
First National Bank	---	1,855,592	70,022
Mauritius Commercial Bank	---	1,434,376	54,127
Banco Procredit	---	1,116,695	42,139
Socremo - Banco de Microfinanças	---	696,443	26,281
Moza Banco	---	664,724	25,084
Banco Mercantil e de Investimento	---	377,764	14,255
Banco Internacional de Comércio	---	343,579	12,965
Banco Terra	---	328,853	12,410
Banco Oportunidade	---	15,179	573
Banco Tchuma	---	---	---

Table 24: Total Assets (Millions) represented in MT and USD

*Source: The Mozambican Banking Sector, KPMG (2008). *2009 figures are not yet published.*[152]

Institution	Branches	N° Provinces	ATM	POS	Clients
BIM	126 total 48 Maputo city & province	11	320	2,660	863,000
BCI	95 total 34 Maputo city 9 Maputo province	11	290	2,500	261,000
Standard Bank	34 total 19 Maputo city & province	11	45	NA	---
Barclays Bank	59 20 Maputo city 5 Maputo province	11	74	125	---
Banco Terra, SA.	9 1 Maputo city	9	290	2,500	---
FNB	13		290	2,500	---

[152] 2009 figures are sourced from an article informing of the 2009 KPMG Mozambican Banking Sector Report quoted in Agencia de Informacao de Mocambique (AIM), 23 February 2011. Available at: http://allafrica.com/stories/201102240142.html.

Institution	Branches	N° Provinces	ATM	POS	Clients
	7 Maputo city				
ICB	---		290	2,500	---
Moza Banco	---		290	2,500	---
Banco Unico	---		290	2,500	---
ABC	---				---
BMI	---				---
MCB	1				---
Banco ProCredit	20 9 Maputo city 2 Maputo prov	8	29		---
Socremo	12 5 Maputo city 1 Maputo prov	7	290	2,500	---
BOM	12 (1 Maputo) 6 mobiles	7			---
Tchuma	9 3 Maputo city 3 Maputo prov	5	290	2,500	---

Table 25. Banking outlets per bank, 2010

Source: TEYSSIER (2010), unpublished ibid, and banks websites

Appendix C: Selected MFI industry data

	Banco ProCredit	Socremo	BOM	Tchuma	CCOM	RCRN	Unacred.	Hluvuku	África Works	FDM	CPL	CM Nampula	CM Nacala
# Active clients	10,635	11,717	11,333	9,490	11,020	7,535	2,993	5,106	4,281	3,804	625	384	158
Total portfolio (' 000 MT)	952,977	601,888	135,759	144,444	88,865	27,673	19,119	69,146	38,638	22,656	85,574	4,556	330
Average outstanding loan	89,608	51,369	11,979	15,221	8,064	3,673	6,388	13,542	9,025	5,956	136,918	11,865	2,080
Portfolio at risk 30 days (%)	6.00%	2.57%	2.80%	8.75%	9.65%	16.00%	22.10%	5.65%	1.64%	5.00%	28.00%	1.00%	14.00%
# Depositors	108,169	56,382	46,187	31,014		811						2,328	484
Deposits portfolio (' 000 MT)	1088,314	621,414	95,789	28,613		812						9,248	860
Average Deposit /client	10,061	11,021	2,074	923		1,001						3,973	2
# branches	19	13	13	9	12	44	7	6	6	3	1	1	1
# staff	483	338	202	167	142	64	69	43	60	54	13	10	11

Table 26. Available statistic information regarding the main MF operators

Yellow: MF oriented Commercial banks
Orange : Networks of OPEs (Credit and Saving Associations)
Blue: non-profit MFIs
Green: Cooperatives

Appendix D: Premium trends (insurance sector)

Insurance Line	2006	2007	2008	2009	2010
Workmen's Compensation	130	153	182	234	282
Personal Accident	125	132	199	253	284
Fire and Natural Disaster	204	230	193	430	689
Vehicle	569	711	819	1 038	1 388
Other non-life	308	304	447	496	665
Life	184	215	357	323	636

Table 27: Gross premiums underwritten by product line (2006-2010)

Appendix E: Industry breakdown of asset classes (insurance sector)

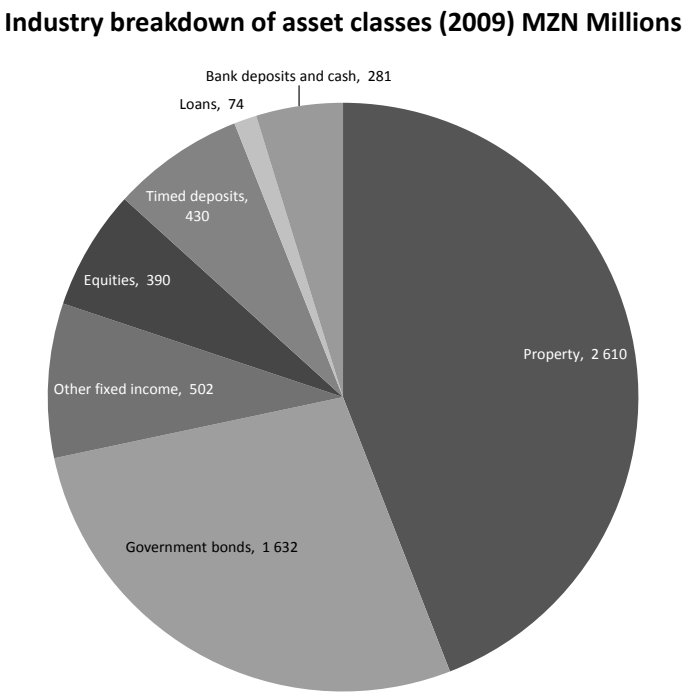

Figure 30: Industry breakdown of asset classes MT Millions

Source: ISSM Report, 2009

Appendix F: Operating ratios (insurance sector)

Life insurance industry[153]

	2007	2008	2009
Claims and change in reserves	172%	97%	51%
Acquisition expenses	8%	7%	11%
Administrative expenses	17%	13%	19%
Investment result	89%	52%	72%

Table 28. Operating ratios in the life insurance industry

Source: IGS/ISSM Reports (2007-2009)

Non-life insurance industry[154]

	2007	2008	2009
Claims and change in reserves	57%	41%	37%
Acquisition expenses	19%	18%	10%
Administrative expenses	28%	25%	30%
Investment result	39%	36%	14%

Table 29. Non-life insurance industry

Source: IGS/ISSM Reports (2007-2009)

[153] Ratios are expressed as a percentage of net written premium.
[154] Ratios are expressed as a percentage of net written premium.

Appendix G: Performance indicators

Life insurance industry

Ratio	Description	International Standards	SIM	EMOSE	Hollard	Industry Average
Return on capital (ROE)	Net Income for the year/equity X 100	6 to 12%	25.2%*	6.2%*	3.4%	13.0%
Change in capital	(Current Year equity - Prior year equity)/prior year equity	5 to 12%	15.4%*	11.7%*	N/a**	16.8%
Benefits paid ratio	Benefits Paid/Net Premium written	45% to 70%	41.9%	76.3%	14.5%	51%
Surplus relief ratio	Reinsurance Commission/EquityX100	up to 15%	1.2%	0.1%	1.7%	0.5%
Capital to liabilities ratio	Equity/LiabilitiesX100	> 4.5%	33.4%*	77.6%*	684.0%	53.5%
Investment in mortgages & real estate	Investments in Mortgages& Real Estate/EquityX100	150% to 300%	96.0%*	121.2%*	0.0%	108.2%
Change in net premium Written* **	(Current year Net Premium written - Prior year Net Premium Written)/Prior year net premium written *100	- 30% to 50%	12.2%	42.0%	N/a**	20.7%
Net risk ratio	Net Premium Written/Equity	up to 5.5	0.99*	0.43*	0.11	0.62

Table 30. Life insurance industry performance indicators

Source: IGS/ISSM Report, 2009

*Ratio for combined life and non-life business.
**Commenced operating in 2009
***Change from 2007 to 2009 annualised

Non-life insurance industry

Type of ratio	Description	International Standard	SIM	EMOSE	MCS**	Global Alliance	Hollard	Austral	Top 10 Unweighted Industry Average	Out of range	Industrial Average
Return on equity (ROE)	Net Income for the year/Equity X 100	Market	25.2%*	6.2%*		16.5%	14.2%	-98.6%			13.0%
Change in equity	(Current year equity - Prior year equity)/prior year equity	-10 to 50%	15.4%*	11.7%*		113.3%	8.4%	N/a***			18.0%
Current (liquidity) ratio	Current Assets/Current Liabilities	Min of 1.25	1.33*	1.78*		1.42	1.49	1.49			1.51
Change in net writings	(Current year Net Premium written - Prior year Net Premium Written)/Prior year Net Premium written X 100	-33 to 33%	21.7%	12.8%		31.2%	36.3%	N/a***			23.1%
Change in gross writing	(Current year Gross Premium written - prior year Gross Premium written)/ Prior year gross premium written X 100	-33 to 33%	22.8%	19.0%		31.1%	34.9%	N/a***			26.2%
Gross risk ratio	Gross premium written/Equity	Max of 7	1.17*	0.55*		2.58	2.07	1.83			1.04
Net risk ratio	Net premium written/Equity	Max of 3	0.99*	0.43*		1.20	1.42	1.65			0.75
Net claims ratio	Net claims incurred/Net earned premium	Max of 0.7	41.0%	77.7%		57.9%	51.3%	55.0%			57.3%
Expense ratio[1]	Total expenses/Net premium earned	Max of 35%	32.2%	65.8%		104.6%	59.7%	182%			61.0%
Underwriting result	Underwriting profit (Loss)/Net earned premium X 100	-10 to 30%	54.4%	13.5%		21.2%	19.7%	-131.5%			28.5%

Table 31. Non-life insurance industry performance indictors

Source: IGS/ISSM Report, 2009

***Ratio for combined life and non-life business.**
****No data available.**
*****Commenced operating in 2009**
1 Includes "other costs", which are substantial for EMOSE, GA and Hollard. These other costs are a combination of 1) mathematical reserve of life insurance business, 2) profits net of reinsurance, and 3) unrealised capital losses on investments.

Appendix H: Regulatory Section

Annex 1: Definitions by product line (mainstream insurance regime)

Type of product line	Definition
Life insurance (*seguro de vida*)	One which covers a risk associated with death or survival of the insured.
Health insurance (*seguro de doenca*)	One in which the insurer covers risks related to health or the prevention of illness of the insured, making the provision contractually agreed.
Personal accident (*seguro de acidente pessoal*)	One that covers the risk of injury, temporary disability, permanent total or partial disability or death of the insured, due to sudden, external and unpredictable reasons.
Credit life insurance (*seguro de credito*)	One that guarantees payment to the creditor of the remaining debt of the borrower in case of death or the occurrence of unusual circumstances that hinder compliance of the respective financial obligation, under the agreed terms in the corresponding policy.

Table 32: Definitions of key insurance product lines

Source: Annex, Insurance Regulations

Annex 2: Diagram of periphery legislation to the Insurance Act

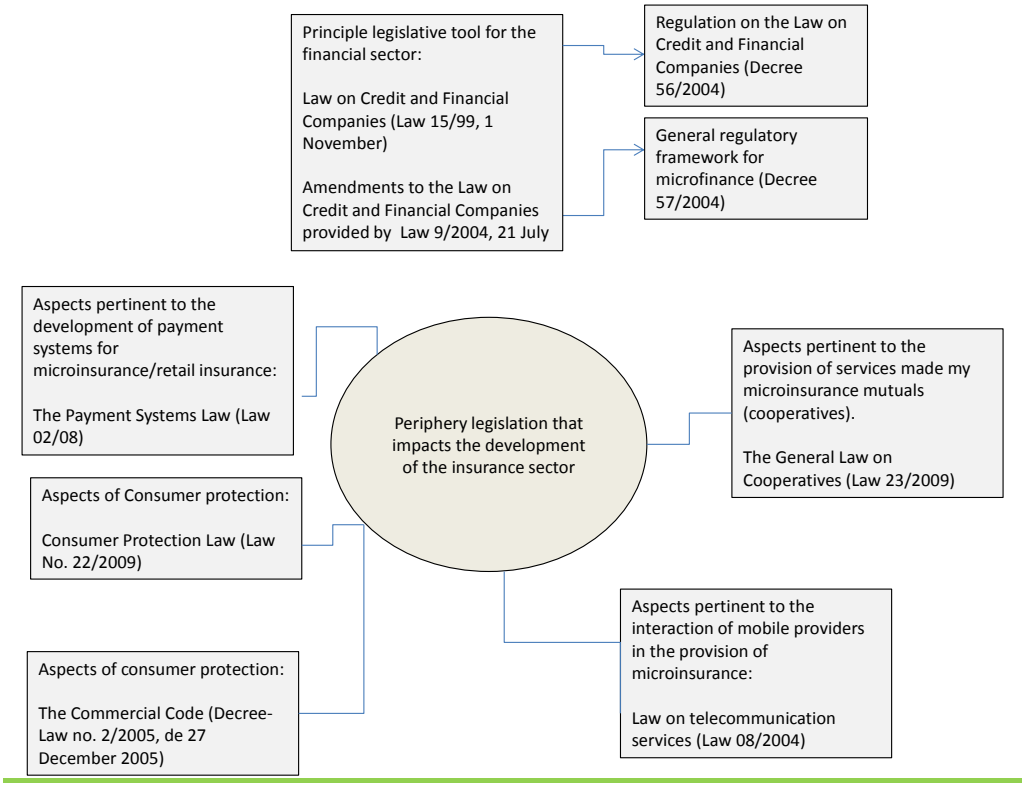

Figure 31. Landscape of periphery legislation to the insurance sector

Source: Author's own interpretation

Annex 3: Definitions of MFIs

The definitions for microbank entities and other non-bank microfinance operators are the following (Article 1, Decree 57/2004):

Type of microbank/microfinance operator	Definition
Microbank	Credit institutions whose main purpose is to carry on limited banking business, namely that of microfinance, within the terms laid out in applicable legislation.
Savings bank (*Caixa Económica*)	A microbank characterised by the fact that an institution with non-profit, social or welfare

Type of microbank/microfinance operator	Definition
	purposes has a controlling interest in it.
Post office savings bank (*Caixa de Poupanca Postal*)	A microbank characterised by the fact that a postal provider or similar enterprise has a controlling interest in it, and that uses the infrastructure and services network of that enterprise to carry on its own business.
Rural finance bank (*Caixa Financeira Rural*)	A microbank characterised by its focus on rural activity
General savings and credit microbank (*Caixa Geral de Poupanca e Crédito*)	A microbank that is not subjected to any of the features that characterise the other types of microbank referred to in the definitions of savings bank, post office savings bank or rural finance bank.
Credit cooperatives	Credit institutions set up in the form of cooperatives societies, whose business is pursued exclusively for the benefit of their members.
Savings and loan organisations	Organisations registered as microfinance operators, whose nature and form, as permitted by law, presupposes that there are members and that these are associative and or cooperative in nature, specifically, community based organisations.
Microcredit operators	Entities registered for the sole purpose of carrying on credit activity on a regular and professional basis, which must not be commercial companies.
Deposit broker	Entities registered to carry on the business of intermediaries in obtaining deposits.

Table 33: Definitions of the various types of microfinance entities enabled in Mozambique

Source: (Based on article 4, microfinance regulations)

Appendix I: Product Matrix

Insurer	Product	Product name (Portuguese)	Distribution	Premium	Benefits	Bundled/ Compulsory	Number of clients covered
SIM	Credit life/term life	Seguro Vida Millenium BIM	BIM & IMPAR (broker business)	Depends on clients' age and gender + insured value - Annual premiums from <1% for young person (30 yr)/small loan to over 2.5% for older clients (>50yr)	Partial and permanent disability (covers from 66.6% of the loan upwards) and death, depending on the insured amount – applies to those between 15-60 yrs. Above 60 yrs, death only. No client > 70 yrs. Value paid to bank if credit life, or beneficiary if term life insurance	Compulsory for loan clients	n/a
	Funeral	Seguro Em Paz	BIM only	• Depends on benefits. Premium can be paid annually benefit 6,000 MT - Premium 23 MT/month • benefit 12,500 MT - Premium 48 MT/month • benefit 25,000 MT - Premium 95 MT/month • benefit 50,000 MT - Premium 191 MT/month same scale applies for USD premiums/benefits (from $ 1,000 to 4,000)		Voluntary	n/a
EMOSE	Credit life	Seguro de Vida (pilot for distribution through MFIs)	Bank (BCI) and MFIs (Hluvuko and MBM)	Depends on client's age, gender and value of loan. Fixed single premium (BCI) / average (2%) per 1,000 MT of the loan amount (Hluvuko, MBM)	Covers outstanding loan balance	Compulsory for loan clients	n/a

Insurer	Product	Product name (Portuguese)	Distribution	Premium	Benefits	Bundled/ Compulsory	Number of clients covered
	Funeral	Seguro de despesas de funeral	EMOSE (sales staff) and agents	Premium charged per life insured and paid per year or semester. Three benefit options: A: Adult benefit MT 5 400 - Premium MT 135 ppp/annum Children <21 years: MT 2 700 Parents/in laws- Premium MT 72 pppa Children 21 -30 years MT 2 700 - Prem: MT 93 ppp/annum B: Adult benefit MT 7 200 - Premium MT 176 ppp/annum benefit 3.600 MT children<21 yr and parents/in laws- P 93,10 MT/pp/yr benefit 3.600 MT children21 -30 yr - P: 120,95 M/pp/yr C: benefit 10.000 MT adults- Premium 240,38 MT/pp/yr benefit 5.000 MT children<21 yr + parents/in laws- P 125,32 M/pp/yr benefit 5.000 MT children21 -30 yr - P: 164 MT/pp/yr exists up to 30.000 MT benefit /premium around 400 MT for anybody 66-75 Yrs old, premium are increased 50% grand-children, nephews etc. can be incorporated in the insurance		Voluntary	2,000 individual clients, 20 Churches and family groups
Global Alliance (GA)	Term life / Credit life	Seguro de Vida/Vida no crédito	GA / Barclays	Depends on client's age and gender + health - quotation required. Annual premiums from (1.1%) for young person (30 yr)/small loan to over 2 % for older clients (>50yr)	Credit life covers outstanding loan balance. Value paid to bank if credit life, or beneficiary if life insurance	Compulsory for loan clients	n/a
	Funeral	Beneficio funerario -	GA	Insured person + spouse + 6 children max, up to 21 yr 3 options: A: MT 480 pppa B: MT 600 pppa	Depends on age of dependent. For adult >16 yr: A: 5 400 B: 7 200 C: 15 000	Voluntary	n/a

Insurer	Product	Product name (Portuguese)	Distribution	Premium	Benefits	Bundled/ Compulsory	Number of clients covered
				C: MT 900 pppa			
	Funeral	Poupança funeral	Barclays	depends on plan - Indiv 93 MT/month, family (spouse + 6 children + 2 adult dependents) 175 MT/month holder + spouse153 MT/month or holder + Children: 115 MT/m	Depends on age of dependent. For adult : 37.500 MT 14-24 yrs: 25.000 MT 4-14 yrs: 17.500 MT 0-4 yrs: 10.000 MT dead-born : 3.750 MT	Voluntary	n/a
	Credit life + personal accident	Seguro de acidentes pessoais	Barclays	Depends on outstanding loan value (reducing premium)	Permanent invalidity or death - capital or pension paid to beneficiary	Compulsory	n/a
	Agricultural insurance pilot	Seguro Agricola (pilot)	Standard Bank	(4-6%) of loan value	50% of the loan covers production, commodity stocks and goods in transit	Voluntary	2,500 farmers
Hollard	Credit Life + Funeral	Seguro de Vida (pilot)	BOM (MFI)	(1.52%) of the loan value per year	Max cover < USD $50.000. Embedded with credit life. Premium covers credit life + basic funeral on member and dependents. Cover ceases when loan repaid.	Compulsory for loan clients	11,000 (all BOM clients)

Insurer	Product	Product name (Portuguese)	Distribution	Premium	Benefits	Bundled/ Compulsory	Number of clients covered
	Funeral	Plano Tranquilidade	Standard Bank	$8 / 196 MT/month for a family of up to 7 people + 98 MT/month pp for extra dependents	Depends on age of dependent. For adult : 36.000 MT / $1.500 14-24 yrs: 24.000 MT /$ 1.000 4-14 yrs: 16.500 MT/ $700 0-4 yrs: 10.000 MT / $400 born dead : 3.000 MT/$150	Voluntary	8,000 policies
	Hospital cash	Plano Hospital	Standard Bank	180 MT/month for a family of up to 7 people or 75 MT/month for individuals	1.500 MT per day in hospital after 72 hours waiting period to max of 30 days. Cover member + dependents.	Voluntary	
	Credit life/ instalment protection	Seguro de Vida	Standard Bank	0.35% of outstanding loan per month	Death, disability and retrenchment cover	Compulsory for loan clients	10,000 policies
		---	BOM (MFI)	---			
Austral	Funeral Plan	---	Brokers	family cover, 1000 to 6000 MT (annual premium)		Voluntary	n/a
		---	Agents				
Real	Funeral cover (for companies)	Seguro de Funeral	Real direct sales + brokers	Min. 10 persons/ premium deducted from salaries and paid by the company. Covers up to 6 children, parents and in laws A: Premium 50 MT/month Benefit: 10.000 MT B: Premium 70 MT/month Benefit: 15.000 MT C: Premium 90 MT/month Benefit: 20.000 MT paid in cash to the beneficiary		Voluntary	n/a

Insurer	Product	Product name (Portuguese)	Distribution	Premium	Benefits	Bundled/ Compulsory	Number of clients covered
	SME	PME	Real direct sales + brokers		Minimum sum assured of USD $50,000 can cover fire and perils, burglary, public liability, employer liability and money in transit	Voluntary	n/a
Moçambique Companhia de Seguros (MCS)	accident (death, invalidity > 60%, medical treatment)	Accident Pessoal	MCS direct sales + brokers	Premiums apply to individuals and are paid annually Depends on the insured capital I: capital 50.000 - Premium 1,092 MT/pp/yr II: capital 100.000 - Premium 2,188 MT/pp/yr III: capital 150.000 - Premium 3.376 MT/pp/yr		Voluntary	Negligible
	Death/invalidity >50%	Renda Familiar		Premiums are individuals and paid per year Depends on the insured capital I: capital 50.000 - benefit 5.000 MT per month for 5 yrs + 2.500 for funeral - Premium 1,450 MT/pp/yr II: capital 100.000 - benefit 10.000 MT/mês for 5 yrs + 5,000 for funeral - Premium 2,735 MT/pp/yr III: capital 150.000 - benefit 15.000 MT/mês for 5 yrs + 7,500 for funeral - Premium 4,216 MT/pp/yr		Voluntary	Negligible
MFIs/ASCAs (self-insurance)	**Informal Products**	**Product name (Portuguese)**	**Distribution**	**Premium**	**Benefits**	**Bundled/ Compulsory**	**Number of clients covered**
Ophavela (ASCA)	Funeral Cover (pilot)	Seguro "Vida e Paz"	ASCA groups	10 MT/month/<=19 yrs 20 MT/month/20-40 yrs 25 MT.month=>41 yrs (individual cover)	2,000 MT in the case of death of the insured	voluntary	300 (September 2011)
CCOM (MFI)	Credit life	Fundo solidario / seguro de vida	CCOM	1% of loan value	loan outstanding balance	compulsory	10,000

Insurer	Product	Product name (Portuguese)	Distribution	Premium	Benefits	Bundled/ Compulsory	Number of clients covered
RCRN (MFI)	Credit life	Fundo solidario / seguro de vida	RCRN	1% of loan value	loan outstanding balance	compulsory	7,000
FDM (MFI)	Credit life	Seguro de vida	FDM	1% of loan value	loan outstanding balance	compulsory	5,000
Progresso (MFI)	Credit life	Fundo solidario / seguro de vida	Progresso	1% of loan value	loan outstanding balance	compulsory	500

Table 34. Product matrix detailing microinsurance products currently on the market distributed by MFIs/ASCAs (not exhaustive).

Source: Mystery shopping and industry consultation.

Appendix J: Additional insights concerning insurance penetration

In this section we discuss the following analyses of insurance penetration in more detail:

- *Insurance penetration across income* – for health (show in Figure 32 below) and asset (shown Figure 33 in below) insurance penetration across income bands
- *Insurance penetration across various age brackets* – insurance penetration of various aggregated insurance lines (Figure 34), life (Figure 35), health related (Figure 36), Asset (Figure 37), comparing insurance usage with cell phone ownership and other financial service usage (Figure 38)
- Insurance penetration across the various provinces in Mozambique -

Health related insurance penetration across income bands

Figure 32 below shows health-related insurance take up across income bands. It is clear that health-related insurance is linked to income. Personal accident and disability as well as hospital cash plans peak at the MT 500,000 to 750,000 per annum (USD $50 to USD $75) income bracket (USD $75 to USD $100 per day). This bracket can be considered a wealthy segment of the population.

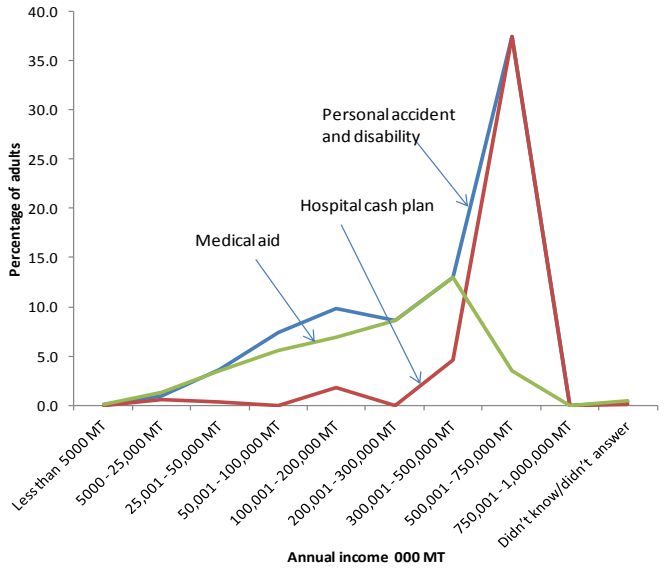

Figure 32. Health related insurance take up across income bands

Source: FinScope Mozambique, 2009

Asset related insurance penetration across income bands

Figure 33 below shows asset and other insurance (excluding retirement insurance) take up across the different income bands.

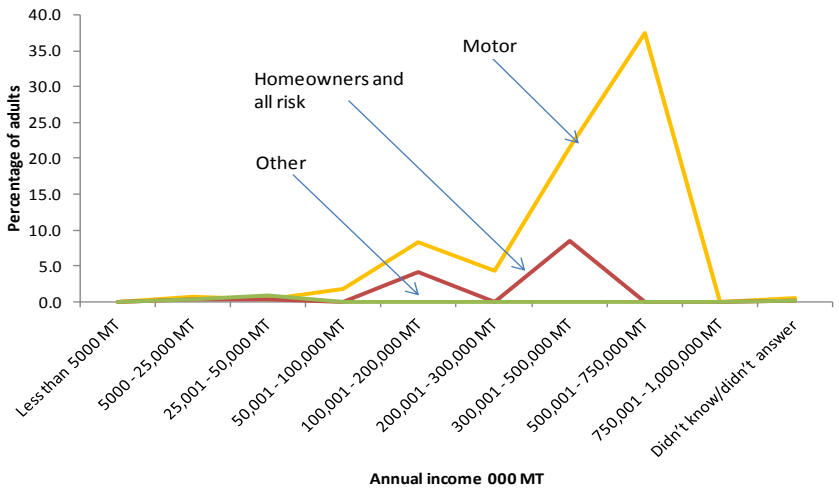

Figure 33. Asset and other insurance take up across income bands

Source: FinScope Mozambique, 2009

As expected, asset insurance correlates with income. Motor insurance peaks at MT 500,000 to 750,000 (USD $75 to USD $100 per day) income bands. People within this income band are more likely to own a motor vehicle (and other assets) and hence to insure these.

Insurance penetration across age brackets

Figure 34 below shows insurance penetration of aggregated insurance lines namely life, asset, health related and other within various age brackets.

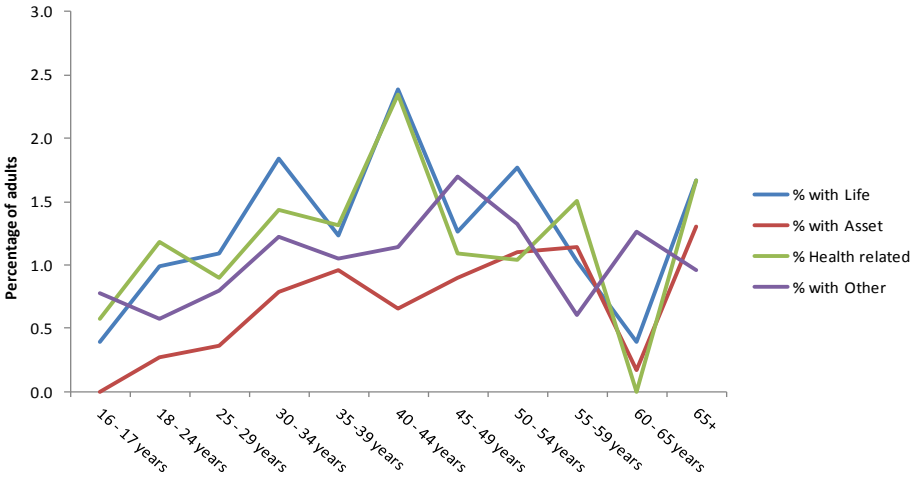

Figure 34. Insurance penetration across age

Source: FinScope Mozambique, 2009

Insurance usage gradually increases with age. This highlights the life cycle considerations around the take up of insurance. For example, while asset insurance penetration is non-existent within the 16 to 17 year age bracket, it increases with age and peaks at the 55 to 59 year age bracket.

Life and health related at 40 -44 years. The 40 to 44 years of age bracket has the highest level of life and health related insurance usage. This potentially shows that over time with an increase in age and the accumulation of income, people are more likely to afford life and health related insurance products.

We drill down into the correlation between age and insurance usage in all of the life, asset, other and health-related insurance categories.

Life

Figure 35 below shows life and retirement insurance take up within the different age brackets.

- Informal and funeral insurance dominate across all ages.
- Funeral insurance usage increases with age.
- Credit life insurance usage is low across all age groups. Interestingly it peaks at the 40 to 44 years age group.

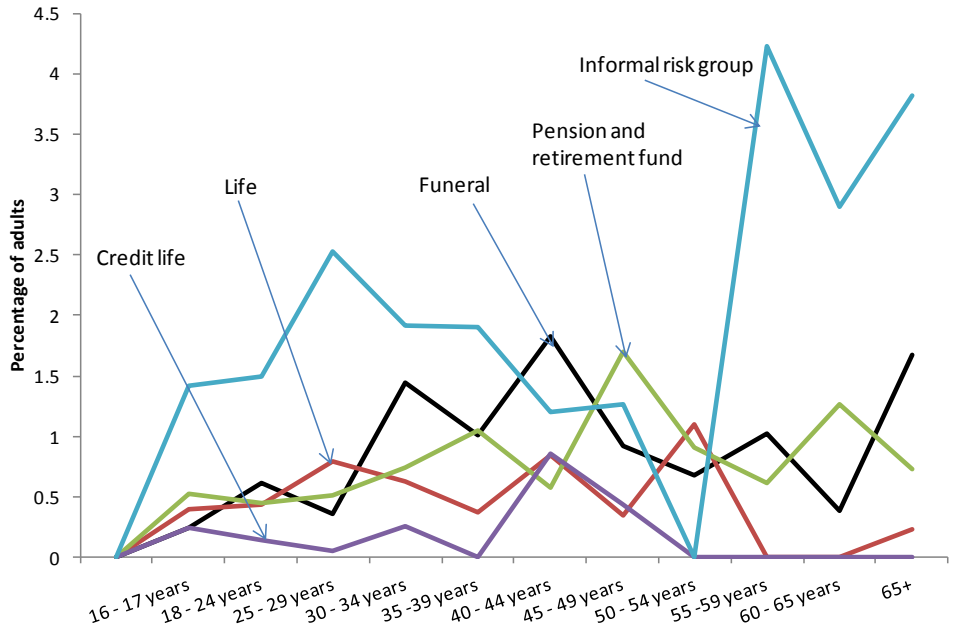

Figure 35. Life insurance penetration within various age brackets

Source: FinScope Mozambique, 2009

Health –related

Figure 36 below shows health-related insurance take up within different age brackets.

- While there is no clear distinguishable pattern, it would seem that health-related insurance take up correlates with age.
- Medical aid has the highest take up of health-related insurance products and its usage correlates with age, peaking in the 40 to 45 years age group. This could potentially indicate that this group has accumulated wealth over time and thus has resources to purchase medical aid insurance.
- The hospital cash plan has a low level of usage across the different age groups.
- Personal accident and disability peaks at the 35 to 39 years age group.

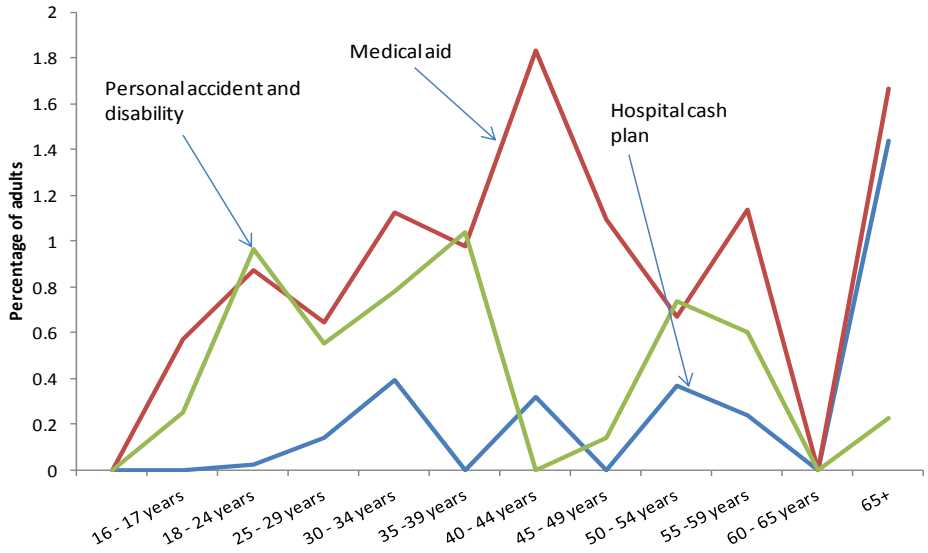

Figure 36. Health related insurance penetration within the various age brackets

Source: FinScope Mozambique, 2009

Asset

Figure 37 below shows insurance penetration within the various age brackets and highlights a number of trends:

- Motor insurance usage appears to correlate with age and peaks at the 55 to 59 years age group.
- Home owners' and all risk insurance also correlates with age.
- One reason that could explain home owners and motor insurance usage correlation with age is that it typically takes time for individuals to acquire assets.
- There was no clear noticeable pattern concerning other insurance usage across the different age groups.

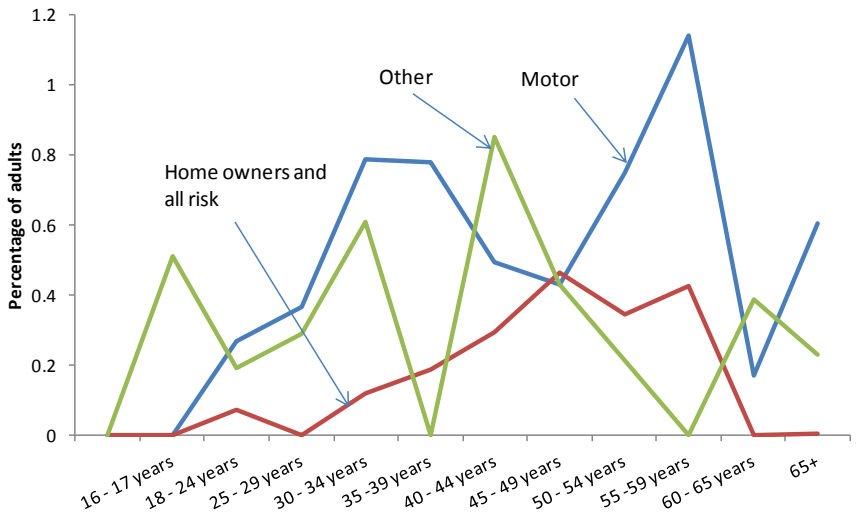

Figure 37. Asset insurance penetration within age brackets

Source: FinScope Mozambique, 2009

Comparing insurance penetration to other financial services usage and cell phone ownership across various different age brackets.

Figure 38**Error! Reference source not found.** below compares insurance penetration (both INSS and formal insurance) within the different age brackets in comparison with bank account ownership, cell phone usage, MFI membership and the use of informal risk groups (or informal insurance). (This is different from a comparison of insurance usage across various age brackets e.g. 76% of those who are insured fall within a certain age bracket versus a comparison within the individual age brackets i.e. 7.6% insurance usage within a particular age bracket.

- **Flat age profile across all financial services**. This makes it difficult to establish whether there are life-cyclical considerations around the usage of financial services within the individual age brackets.
- **Informal insurance usage peaks at older age bands.** Informal insurance usage represented by informal risk groups in **Error! Reference source not found.** peaks at the 55 to 59 years age band. This could mean informal risk groups play an important role in the later stages of life as individuals make the necessary preparations for their own death. In addition, the communal and relational aspects of such informal groups could also play a factor in their importance during the later stages of life.
- **Formal and INSS insurance penetration has a flat profile across all the age bands.** It is difficult to establish any definitive observations. This could also be due to the fact insurance usage within the different age brackets is primarily determined by income more than age. (This is different from our previous observations which were based on insurance penetration spread across the various age brackets that is splitting the insured population across the various age brackets).
- **Cell phone usage high amongst the younger population.** Cell phone penetration is fairly high within the younger age bands and peaks at the 30 to 34 years age band.

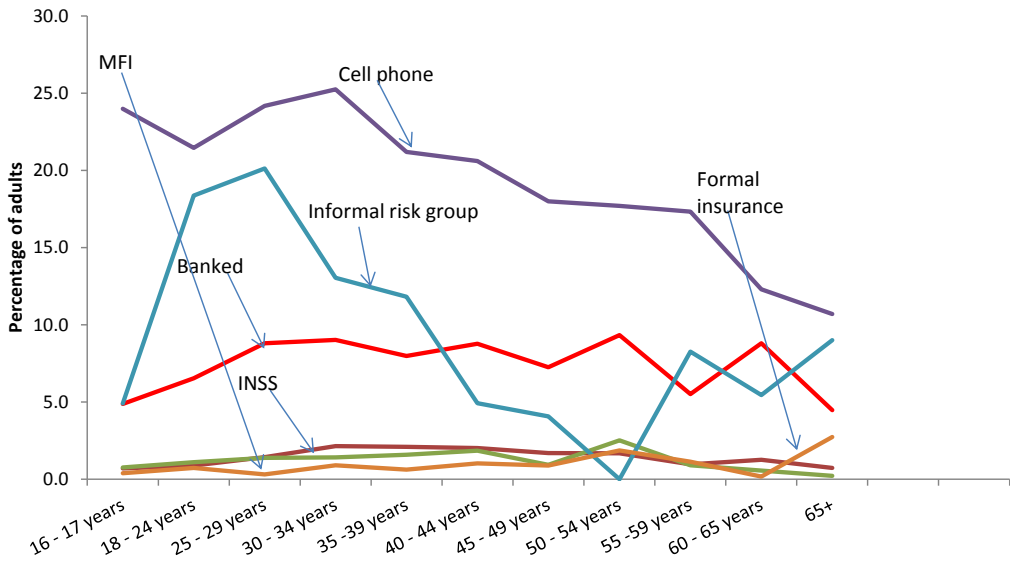

Figure 38. Comparing insurance penetration to cell phone ownership, formal insurance, informal financing mechanisms and bank account ownership across age brackets

Source: FinScope Mozambique, 2009

Provincial insurance penetration

Figure 39 below shows insurance penetration of the broad product categories across various provinces.

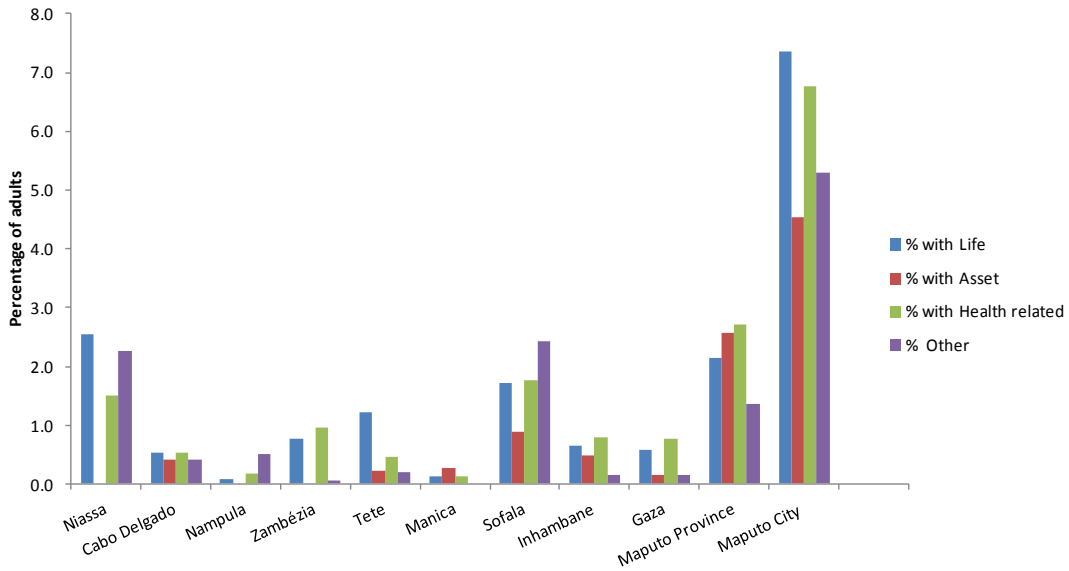

Figure 39. Comparing insurance take up of aggregated insurance lines across various provinces

Source: FinScope Mozambique, 2009

Maputo city and Province dominate. Figure 39 highlights that insurance penetration is concentrated in the Southern parts of the country with the highest level of insurance penetration in Maputo City followed by Maputo Province and Sofala (where the Port of Beira is situated and which serves as a gateway to Mozambique's landlocked neighbours).

Life

Figure 40 below shows life and retirement insurance take up across the different provinces of Mozambique.

A number of insights can be drawn from Figure 40 below:

- Life insurance is predominant in four provinces namely Niassa, Sofala, Maputo City and Maputo Province.
- Informal risk group usage peaks in Inhambane and Maputo City.
- There is relatively low usage of credit life insurance across all the provinces but as expected usage picks up in Maputo City.

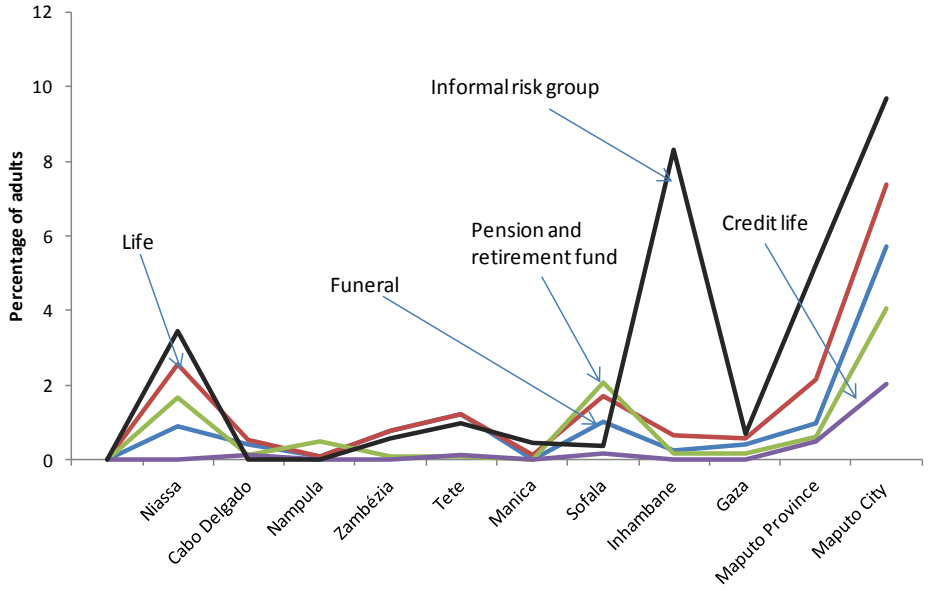

Figure 40. Life insurance take up across different Mozambican provinces

Source: FinScope Mozambique, 2009

Health -related

Figure 41 below shows health-related insurance usage across the different provinces in Mozambique.

Figure 41 below provides a number of insights:

- There are relatively low levels of health-related insurance usage which could be due to the fact that its usage is determined by levels and consistency of income.
- Health-related insurance is predominantly found in Zamezia (Northern province), Sofala (Central province), Maputo City and Maputo Province.

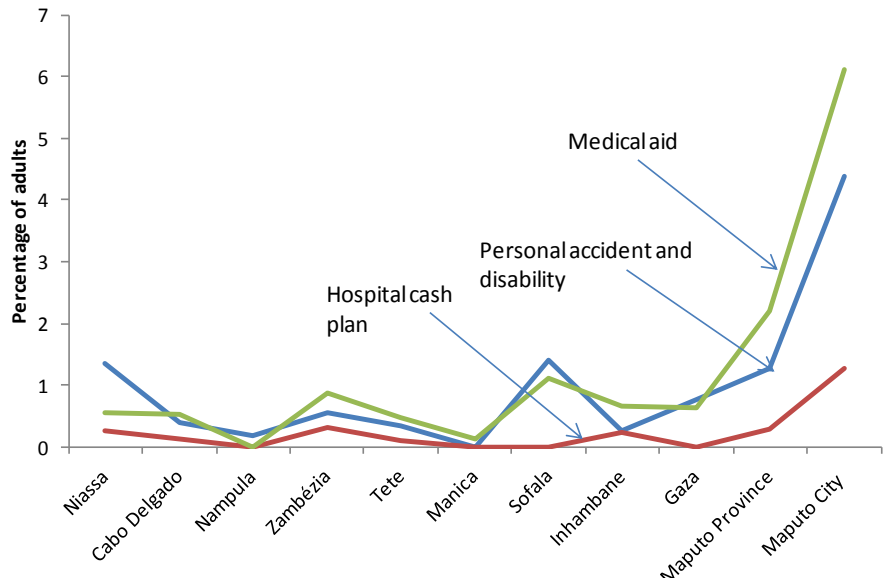

Figure 41. Health-related insurance take up across various Mozambican provinces

Source: FinScope Mozambique, 2009

Asset and other (excluding retirement)

Figure 42 below shows asset and other insurance take up across the different provinces. Key highlights include:

- There is an increase in take up when we move from the Northern provinces to the Southern provinces.
- Asset and other insurance peaks at Cabo Delgado (Northern province) and Sofala (Central province) as well as Maputo City and Maputo Province.

Overarching trends in insurance usage across provinces. The further south one goes, the higher the insurance take up. Northern provinces such as Nampula, Cabo Delgado and Zambezia have negligible levels of insurance penetration. Informal insurance is the dominant form of insurance across the provinces.

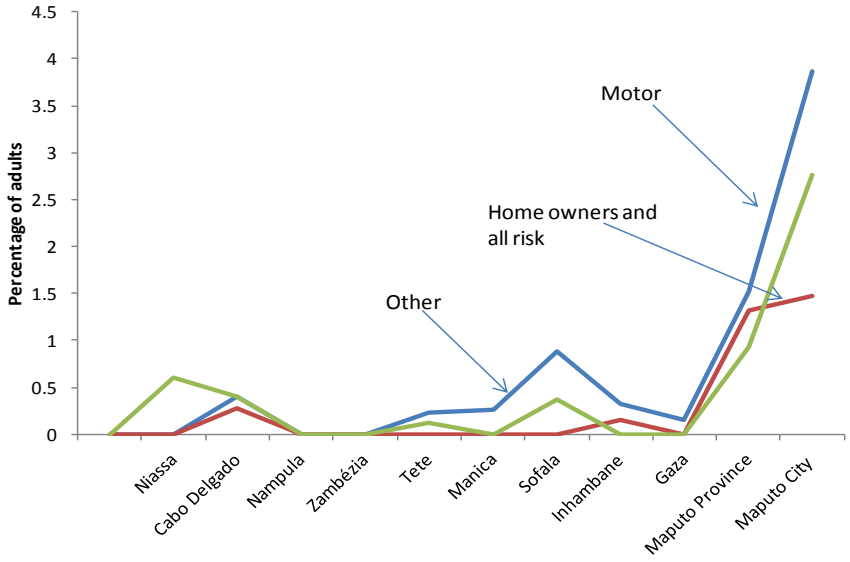

Figure 42. Asset and other insurance take up across various provinces

Source: FinScope Mozambique, 2009

Appendix K: Detailed income distribution for main sources of income identified

Table 35 below shows the income distribution for the various income segments identified in Section 8.5.2. We have also segmented these according to the various profitability groups discussed in Section 8.5.1 above.

	Adult dependents		*The farmers*		*The blue collars*		*Small businessman*		*Biscato or piece job worker*		*Other income*	
USD$ income per day	**%**	**No of people**	**%**	**No. of people**	**%**	**No. of people**	**%**	**No of people**	**%**	**No. of people**	**%**	**No. of people**
Less than USD$0.5	41.9	2,076,195	50.1	1,225,464	19.6	210,410	38.8	637,822	50.76	580,888	45.1	97,928
Between USD$0.5 and US$2.50	17.0	840,930	26.0	635,712	34.6	371,796	33.0	542,120	25.6	293,411	26.2	56,780
Between USD$2.50 and USD$5	2.9	145,138	6.2	152,117	21.6	231,385	6.0	98,324	3.1	35,197	6.9	14,909
Between USD$5 and USD$10	0.8	37,307	1.6	38,354	7.1	76,194	2.2	35,792	1.3	14,887	0.6	1,310
Between USD$10 and USD$20	0.2	10,287	0.8	19,525	3.2	34,399	1.7	28,154	0	0	0.0	0
Between USD$20 and USD$30	0.3	12,348	0.2	4,932	1.4	14,673	0.6	10,556	0.1	1,572	0.0	0
Between USD$30 and USD$50	0.1	3,986	0.2	4,573	0.9	9,314	0.1	1,921	0.1	924	0.6	1,385
Between USD$50 and USD$75	0.0	0	0	0	0.5	5,505	0	0	0	0	0.0	0
Between USD$75 and USD$100	0.1	2,396	0	0	0.0	0	0.2	3092	0	0	0.0	0
Did not know/did not answer	36.9	1,826,669	15	365,886	11.1	119,550	17.4	286813	19	217,465	20.7	44,844

Table 35. Income distribution for various income segments

Source: FinScope Mozambique, 2009

Key: **Unsustainable** **Challenged sustainability** **Low sustainability** **Sustainable** **Premium sustainability**

Appendix L: Detailed income distribution and profitability analysis for touch points identified

Table 36 below presents a detailed analysis of the income distributions for the various touch points (discussed in Section 7.3.1) banked, cell phone owners, formally employed and MFI clients touch points (as discussed in section 7.3). In Table 36 below we segment the various income bands of the four touch points according to sustainability of insurers' profits.

	Banked		*Cell phone*		*Formally employed*		*MFI clients*	
USD$ income per day	**%**	**No of people**	**%**	**No. of people**	**%**	**No. of people**	**%**	**No. of people**
Less than USD$0.5	16%	138,969	28.5%	689,251.45	19.6%	210,410	19.1	27,932
Between USD$0.5 and US$2.50	30.70%	266,268	30.7%	743,014.44	34.6%	371,796	22.6	33,079
Between USD$2.50 and USD$5	18.40%	160,204	12.7%	307,189.98	21.6%	231,385	22.9	33,443
Between USD$5 and USD$10	9.80%	84,952	4.1%	98,141.38	7.1%	76,194	5.4	7,853
Between USD$10 and USD$20	6.40%	55,857	2.4%	57,222.34	3.2%	34,399	7.7	11,312
Between USD$20 and USD$30	1.40%	12,416	0.7%	17,029.11	1.4%	14,673	1.2	1,777
Between USD$30 and USD$50	1.20%	10,419	0.6%	14,616.07	0.9%	9,314	1.3	1,873
Between USD$50 and USD$75	0.60%	5,505	0.2%	5,505.46	0.5%	5,505	2.8	4,130
Between USD$75 and USD$100	0.00%		0.0%	985.64386	0.0%	0	0.0	0
Did not know/did not answer	15.40%	134,166	20.1%	486,192.43	11.1%	119,550	0.0	62

Table 36. Detailed income distributions for the banked, cell phone, formally employed and MFI client touch points.

Source: FinScope Mozambique, 2009

Key: **Unsustainable** **Challenged sustainability** **Low sustainability** **Sustainable** **Premium sustainability**

In Table 37 we present a summary of the various profitability groups across the different touch points as discussed in Section 7.3.1 (banked, cell phone, formally employed and MFI clients). We have highlighted the touch points with the highest ratings according to the different sustainability groups as discussed in Section 8.5.1.

	Unsustainable	Challenged sustainability	Low sustainability	Sustainable	Premium sustainability
Banked	16%	30.7%	18.4%	18.8%	0.6%
Cell phone	28.5%	31%	12.7%	7.7%	0.3%
Formally employed	19.6%	34.6%	21.6%	12.6%	0.5%
MFI clients	19.1%	22.6%	22.9%	15.6%	2.8%

Table 37. Profitability comparison between the cell phone, banked and formally employed touch points.[155]

Source: FinScope Mozambique, 2009

[155] The rows do not sum to 100% due to the exclusion of those who did not respond to the income question.

Appendix M: Detailed income distributions for the different channels

As discussed in Section 8.6 FinScope allows us to analyse the income distributions for people using these different channels according to the sustainability model. We have grouped the income distributions of the various channels according to whether they are within reach, hard to reach or require innovative distribution.

Within reach channels

In Table 38 below we show the income distributions of the within reach channels discussed in Section 8.6 above. In addition, we aim to highlight the various profitability groups (highlighted on the first column on the left hand side).

	Within reach channels											
	Formally employed		Banked		Cell phone		MFI clients		Formal credit and loan		Formal savings and investment	
USD$ income per day	%	No. of people	%	No of people	%	No. of people	%	No. of people	%	No. of people	%	No. of people
Less than USD$0.5	19.6	210410	16.0	138969	28.5	689251	19.1	27932	10.0	10493	15.9	72148
Between USD$0.5 and US$2.50	34.6	371796	30.7	266268	30.7	743014	22.6	33079	17.6	18408	29.2	132099
Between USD$2.50 and USD$5	21.6	231385	18.4	160204	12.7	307190	22.9	33443	26.6	27770	20.1	91032
Between USD$5 and USD$10	7.1	76194	9.8	84952	4.1	98141	5.4	7853	5.6	5898	10.3	46705
Between USD$10 and USD$20	3.2	34399	6.4	55857	2.4	57222	7.7	11312	7.5	7788	7.0	31562
Between USD$20 and USD$30	1.4	14673	1.4	12416	0.7	17029	1.2	1777	2.8	2959	1.2	5600
Between USD$30 and USD$50	0.9	9314	1.2	10419	0.6	14616	1.3	1873	4.5	4753	1.3	5666
Between USD$50 and USD$75	0.5	5505	0.6	5505	0.2	5505	2.8	4130	2.0	2065	0.9	4130
Between USD$75 and USD$100	0.0	0	0.0	0	0.0	986	0.0	0	0.0	0	0.0	0
Did not know/did not answer	11.1	119550	15.4	134166	20.1	486192	16.9	24728	23.4	24446	14.1	63702

Table 38. Income distributions for the various within reach channels highlighting profit sustainability

Source: FinScope Mozambique, 2009

Key: Unsustainable | Challenged sustainability | Low sustainability | Sustainable | Premium sustainability

Innovative distribution channels

In this section we look at the income distributions of the channels that were considered innovative distribution (as discussed in Section 8.6) according to the various profitability groups as discussed in Section 8.5.1.

	Innovative distribution					
	Those who remit funds		INSS		Utility clients	
USD$ income per day	%	No. of people	%	No. of people	%	No. of people
Less than USD$0.5	28.2	237212	7.5	12433	20.3	102475
Between USD$0.5 and US$2.50	28.5	239327	30.9	51369	30.1	151662
Between USD$2.50 and USD$5	15.0	125661	27.7	46094	12.6	63559
Between USD$5 and USD$10	7.3	61581	14.0	23352	8.0	40385
Between USD$10 and USD$20	3.9	32600	7.4	12349	2.9	14757
Between USD$20 and USD$30	1.0	8142	2.3	3794	1.3	6435
Between USD$30 and USD$50	0.5	4408	1.1	1873	1.1	5666
Between USD$50 and USD$75	0.3	2065	0.8	1376	1.1	5505
Between USD$75 and USD$100	0.0	0	0.0	0	0.4	2106
Did not know/did not answer	15.4	129443	8.3	13819	22.1	111407

Table 39. Income distributions for the various innovative distribution channels highlighting profit sustainability

Source: FinScope Mozambique, 2009

Key: Unsustainable | Challenged sustainability | Low sustainability | Sustainable | Premium sustainability

Hard to reach

In this section we look at the income distributions of the channels that were considered hard to reach (as discussed in Section 8.6) according to the various profitability groups as discussed in Section 8.5.1.

	Hard to reach									
	The farmers		Access to health facility		Informal credit and loan		Informal savings and investment		Informal financing	
USD$ income per day	%	No. of people	%	No. of people	%	No. of people	%	No. of people	%	No. of people
Less than USD$0.5	50.1	1225464	40.3	2503141	22.2	60508	25.4	49458	26.4	225266
Between USD$0.5 and US$2.50	26.0	635712	26.3	1631742	35.6	97138	31.7	61864	30.5	259899
Between USD$2.50 and USD$5	6.2	152117	7.1	440729.97	13.1	35663	18.2	35367	12.8	109242
Between USD$5 and USD$10	1.6	38354	2.19	135940.9	10.3	27983	1.4	2626	6.1	51936
Between USD$10 and USD$20	0.8	19525	1.16	71848.727	6.3	17245	4.5	8788	2.9	24833
Between USD$20 and USD$30	0.2	4932	0.61	37952.437	1.9	5063	2.4	4610	1.2	10099
Between USD$30 and USD$50	0.2	4573	0.36	22102.365	0.0	0	0.0	0	0.4	3454
Between USD$50 and USD$75	0.0	0	0.07	4129.7578	0.8	2065	0.0	0	0.2	2065
Between USD$75 and USD$100	0.0	0	0.05	3092.0093	0.0	0	0.0	0	0.0	0
Did not know/did not answer	0.0	365886	21.8	1355132	10.0	27159	16.5	32201	19.5	166818

Table 40. Income distributions for the various hard to reach channels highlighting profit sustainability

Source: FinScope Mozambique, 2009

Key: **Unsustainable** **Challenged sustainability** **Low sustainability** **Sustainable** **Premium sustainability**

Appendix N: Summary of opportunities for the distribution of microinsurance

Figure 43 below summarizes the opportunities for the distribution of microinsurance as discussed in Section 8.

Figure 43. Opportunities for the distribution of microinsurance

Source: FinScope Mozambique, 2009