

# Moving from an untrusted insurer to a trusted risk advisor:

Exploring the opportunity for SME  
insurance in developing markets

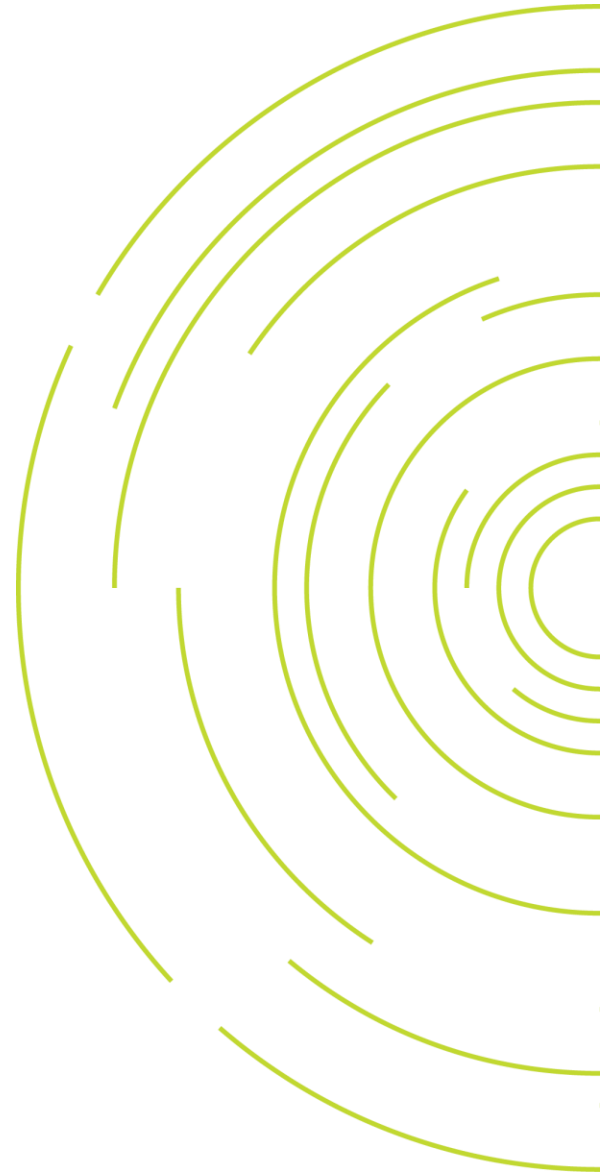
March 2021



# Why look at insurance for SMEs

- SME development is a key driver of **economic growth, employment and innovation**.
  - MSMEs account for 90% of businesses and are a source of more than 50% of employment worldwide (IFC, 2015).
  - Formal SMEs contribute up to 33% of emerging market GDP and up to 45% of total employment (OECD, 2017).
  - MSMEs can play a key role in developing and commercialising innovations. The size and flexible nature of smaller businesses enable them to implement new innovations relative to larger corporates.
- SMEs also constitute **a significant potential growth market** for insurers in developing countries.
- However, despite facing significant and insurable risks, **SMEs remain largely uninsured** in developing countries and few insurers have an explicit focus on SME products.

# The challenges



# There are a range of real challenges for insurers to serve SMEs, creating a “missing middle”

## Inadequate risk management strategies



MSMEs are vulnerable to personal and business-related risks but lack adequate risk management strategies.

## Rapidly changing risk management needs



Risk perceptions and, thus risk management needs, can change rapidly, e.g. when a hazard materialises that was previously disregarded.

## Lack of awareness of insurance



MSMEs often suffer from a lack of knowledge on how insurance works and what risks they should seek insurance coverage for.

## Insurers' lack of knowledge about MSMEs



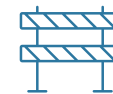
Insurers have little experience in catering to the needs of MSMEs.

## Difficult to reach



Insurers must find new ways of aggregating MSMEs.

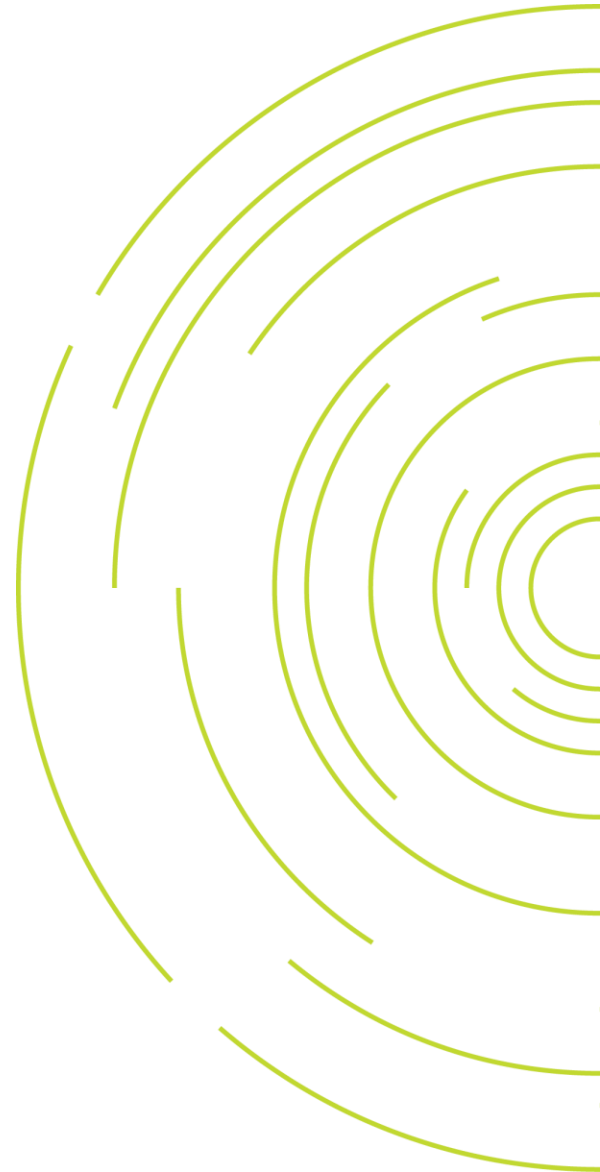
## Regulatory barriers



Regulatory restrictions that can hold back insurers to tap into the MSME market are manifold, e.g. restrictions on distribution channels or on bundling coverages.

# Emerging opportunities:

1. Understand who the SME target market is.
2. Identify aggregators with aligned incentives.
3. Move from insurer to risk management partner.



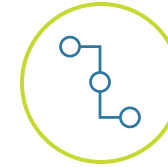
# 1. Effective segmentation crucial to appropriately design products and interventions

Two of the most useful parameters by which to segment MSMEs include:



## **Survivalist vs aspirational** (informal vs formal)

- MSMEs can be distinguished by two key factors:
  - The extent to which they differentiate between personal and business insurance needs
  - Their ability and motivation

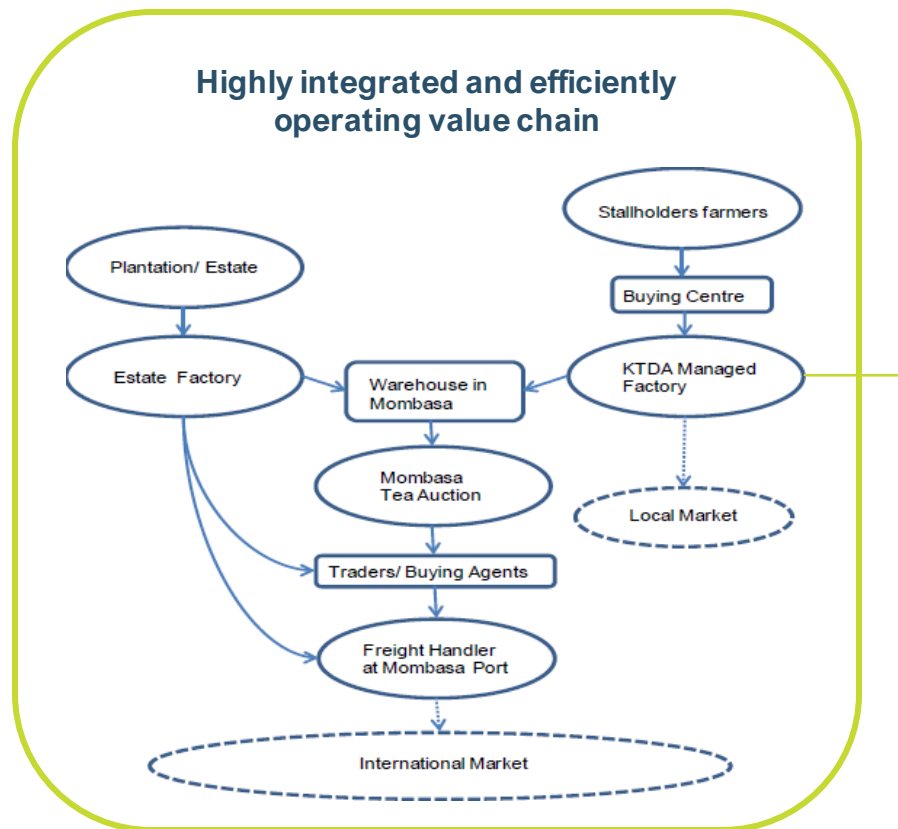


## **Economic activity/value chain**

- The nature of MSME business operations and the sector in which they operate can lead to different contextual realities and risks faced.
- The mapping of value chains is valuable in distilling important cross-cutting risks faced and needs experienced by MSMEs.

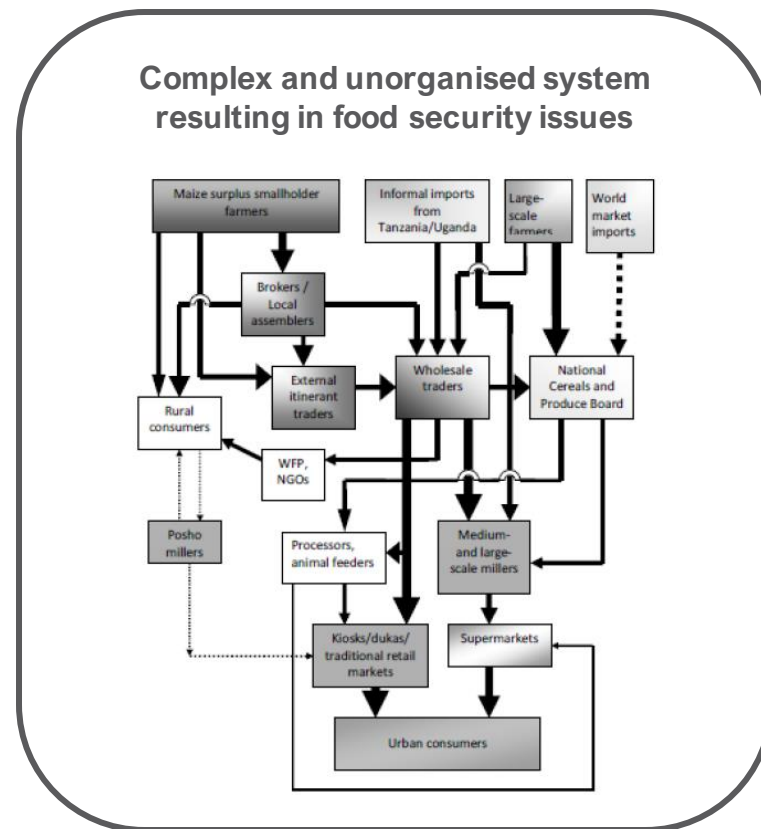
## 2. Identifying appropriate aggregators requires an understanding of how value chains function

**Tea value chain:** contributes to 1.7% of GDP




Kenya Tea Development Agency plays central coordination role for smallholder farmers

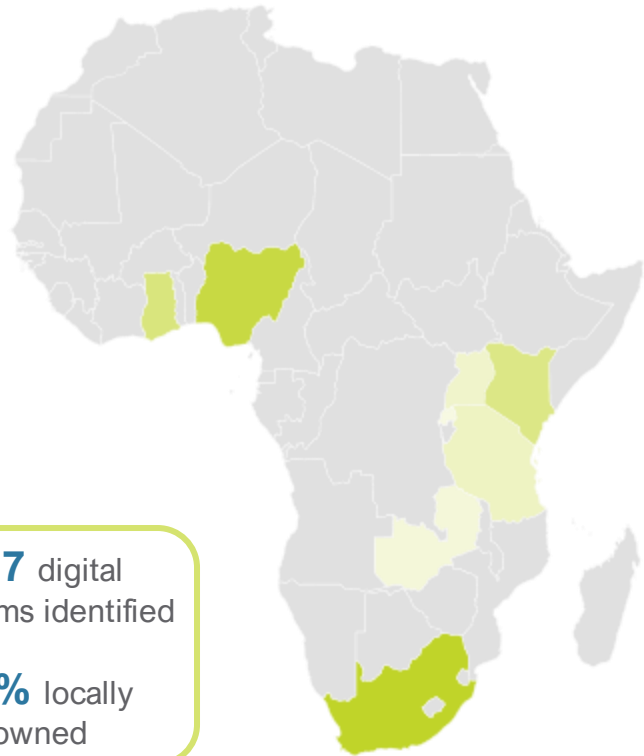
**Maize value chain:** contributes to 0.1% of GDP



# Alternative distribution channels: Digital platforms

The next-generation distribution channel for insurance?

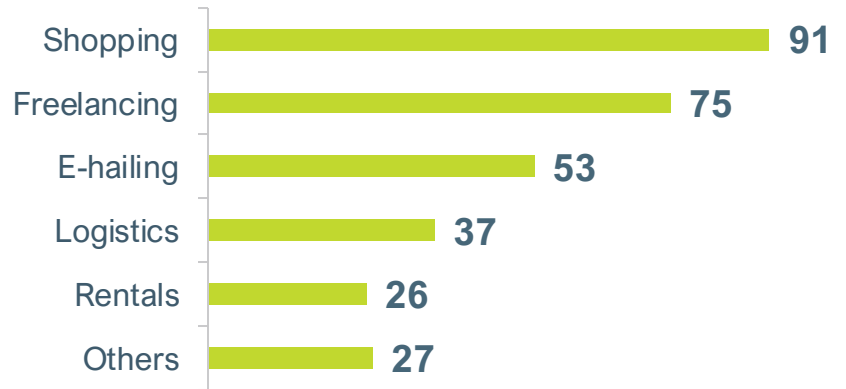
No. of digital platforms by country 



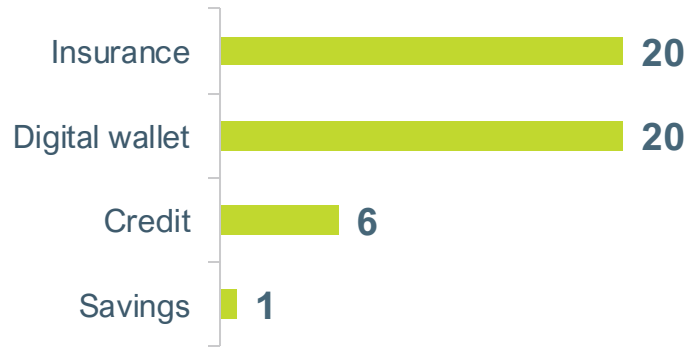
**277** digital platforms identified  
**80%** locally owned

Powered by Bing  
© GeoNames, MSFT, Microsoft, Navteq

Type of digital platforms

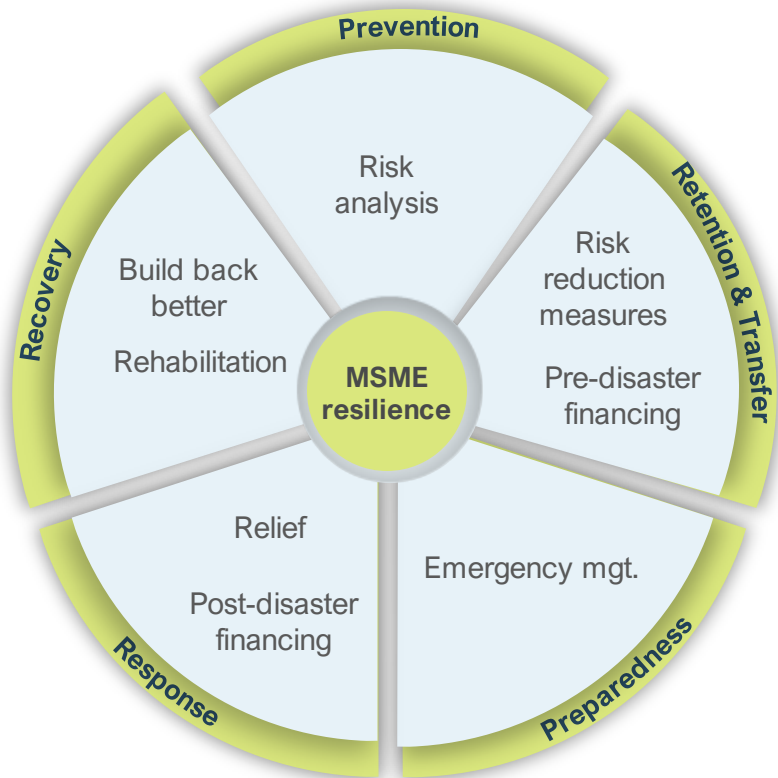


Platforms offering financial services by type

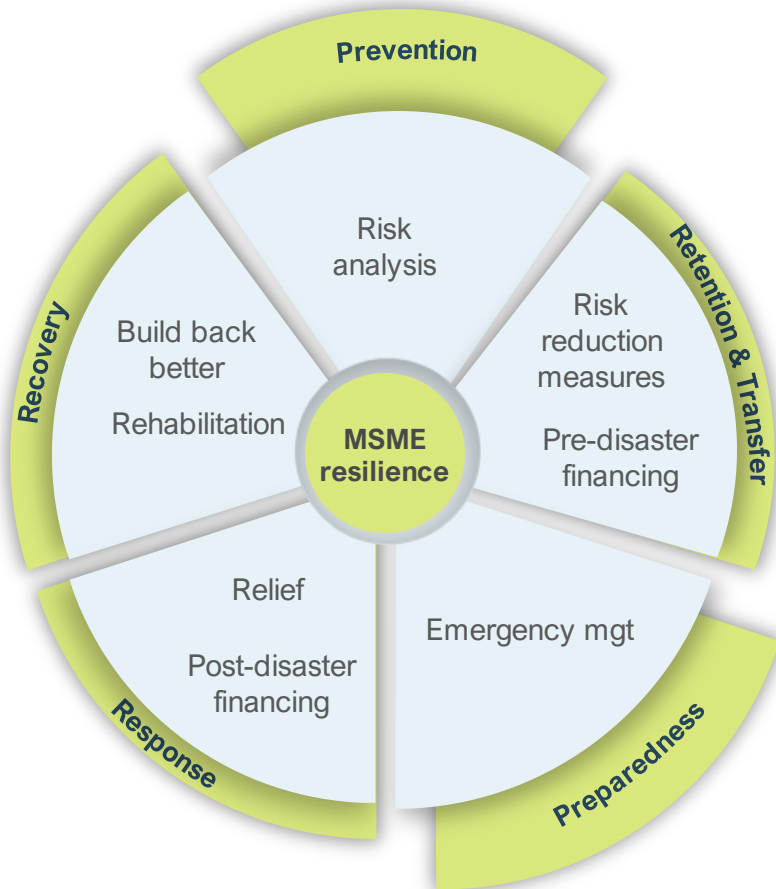




### 3. A holistic approach is required to effectively build MSME resilience



# Risk prevention and risk transfer critical

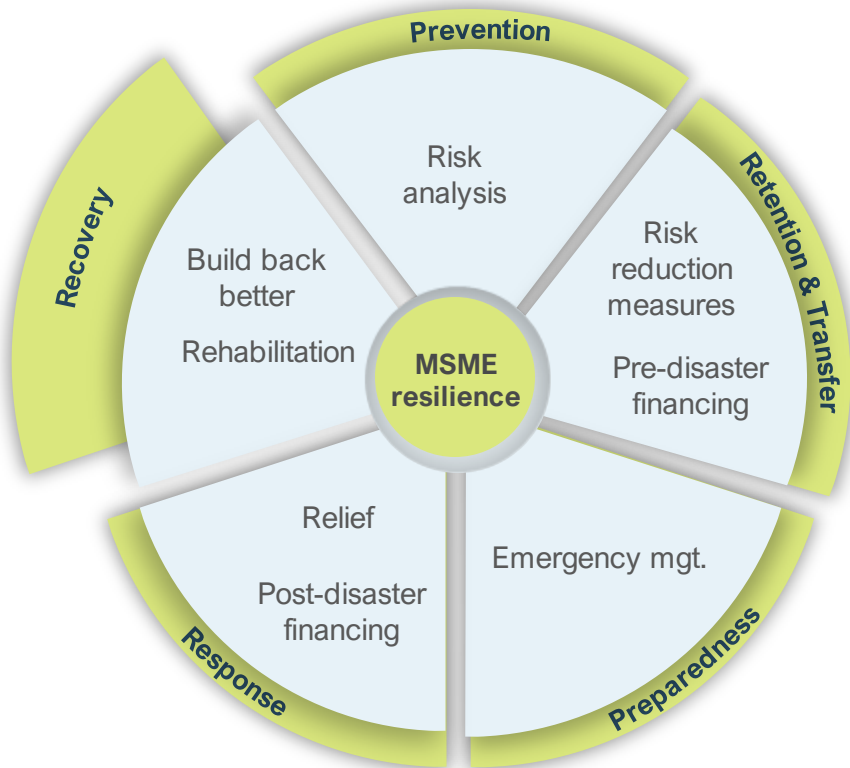


Technology offers emerging opportunities for proactive risk management and prevention:

*m'X* | TELEMATICS



# Don't stop at the response, consider the recovery beyond claims pay-outs



## To build back better requires a consideration of how to build systemic resilience and enable recovery:

For example: Supply chain disruptions in Africa have heavily impacted MSMEs' ability to continue operations.



**Logistical challenges:** 58% of goods firms and 30% of service businesses face challenges in logistics & shipping. (UNECA 2020)



**Collapse of key infrastructure:** The closure of the Fugard Theatre in Cape Town undermines the ability for the creative industry to recover.



**Individual recovery:** Interviews with Moroccan SMEs highlighted that mental health concerns among employees is their biggest concern from COVID-19.

# Thank you

Please engage with us:

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## About Cenfri

Cenfri is a global think-tank and non-profit enterprise that bridges the gap between insights and impact in the financial sector. Cenfri's people are driven by a vision of a world where all people live their financial lives optimally to enhance welfare and grow the economy. Its core focus is on generating insights that can inform policymakers, market players and donors who seek to unlock development outcomes through inclusive financial services and the financial sector more broadly.

