

UPLIFTING INSURANCE PENETRATION

INSURE THE UNINSURED

UPLIFTING INSURANCE PENETRATION

- ❖ Penetration rate indicates the level of development of insurance sector in a country. Penetration rate is measured as the ratio of premium underwritten in a particular year to the GDP.
- ❖ **Insurance penetration** is defined as ratio of premium underwritten in a given year to the Gross Domestic Product (GDP)
- ❖ Penetration in Tanzania is under 1% and we are concerned to the extent that this has been a topic for deliberation in one way or the other in the past few years.
- ❖ Before we analyze this fact, let us see the scenario around us

- Insurance Penetration in Kenya dropped to 2.43 percent of Gross Domestic Product– the lowest in 15 years on the back of price undercutting in an industry where players are facing increasingly tough competition.
- The reach hit it's peak in 2013, when it stood at 3.44 percent of GDP, but has been dropping for five consecutive years.
- This is a point that the sector has failed to ride on insurance opportunities presented by the expanding economy.
- In an interview Wednesday, Kenya Association of Insurers(AKI) Chief executive Tom Gichuhi said that penetration level is not keeping pace with GDP growth and poor pricing has worsened the situation by slowing down the growth rate of gross written premiums.
- The industry has also been accused of failing to develop innovative means to reach the uninsured.



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Insurance penetration drops to 15-year low

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Tom Gichuhi, CEO of AKI

A Lloyd's Risk Report

A world at risk, Lloyd's second underinsurance report, produced with CEBR, shows there is global underinsurance of \$ 162.5bn in 2018.

This shows there is a **significant gap between the level of insurance in place to cover global risks and the actual cost to businesses and governments of rebuilding and recovering from major catastrophes.**

Lloyd's published its first underinsurance report in 2012. This 2018 version includes all the latest non-life underinsurance and insurance penetration data for natural catastrophes for 43 countries across the globe, revealing in detail insurance levels across multiple regions and industries. The report also analyses flood insurance in more detail and looks at how cyber insurance can help businesses reduce the impacts of cyber-attack, one of the fastest-growing emerging risks. **By understanding the state of global insurance and underinsurance, policy officials, business leaders, communities and insurers can identify where insurance gaps exist and work together to close them.**

Insurance penetration by country (premiums as a % of GDP)

| | Insurance penetration % 2018 report | Insurance penetration % 2012 report | Rank 2018 report | Rank 2012 report | Change in position |
|-----------------------------|---|---|---------------------|---------------------|-----------------------|
| Netherlands | 7.7 | 9.5 | 1 | 1 | ↓ |
| South Korea | 5.0 | 4.6 | 2 | 3 | ↑ |
| United States | 4.3 | 4.1 | 3 | 4 | ↑ |
| New Zealand | 4.2 | 5.2 | 4 | 2 | ↓ |
| Canada | 4.1 | 4 | 5 | 5 | ↑ |
| Australia | 3.5 | 3 | 6 | 10 | ↑ |
| Taiwan | 3.4 | 3.1 | 7 | 8 | ↑ |
| Germany | 3.4 | 3.6 | 8 | 6 | ↓ |
| Hong Kong | 3.4 | 1.4 | 9 | 31 | ↑ |
| France | 3.2 | 1.9 | 10 | 20 | ↑ |
| Austria | 3.0 | 3.2 | 11 | 7 | ↓ |
| Spain | 2.8 | 2.7 | 12 | 12 | ↑ |
| United Arab Emirates | 2.8 | 1.5 | 13 | 28 | ↑ |
| Denmark | 2.8 | 2.9 | 14 | 11 | ↓ |
| South Africa | 2.7 | 2.7 | 15 | 12 | - |
| United Kingdom | 2.4 | 3.1 | 16 | 8 | ↓ |
| Japan | 2.3 | 2.2 | 17 | 18 | ↓ |
| Israel | 2.3 | 2.4 | 17 | 14 | ↓ |
| Argentina | 2.3 | 2.3 | 19 | 15 | - |
| Italy | 2.1 | 2.3 | 20 | 15 | ↓ |
| Poland | 2.1 | 1.9 | 21 | 20 | ↑ |
| Morocco | 2.1 | n/a | 22 | n/a | - |
| Colombia | 2.0 | 1.6 | 23 | 27 | ↑ |
| China | 1.9 | 1.2 | 24 | 32 | ↑ |
| Sweden | 1.8 | 1.9 | 25 | 20 | ↓ |
| Chile | 1.8 | 1.8 | 26 | 23 | ↑ |
| Brazil | 1.8 | 1.5 | 27 | 28 | ↑ |
| Norway | 1.8 | 1.7 | 28 | 25 | ↑ |
| Thailand | 1.7 | 1.7 | 29 | 25 | - |
| Singapore | 1.6 | 1.5 | 30 | 28 | ↑ |
| Malaysia | 1.4 | 1.8 | 31 | 23 | ↓ |
| Saudi Arabia | 1.4 | 1 | 32 | 35 | ↑ |
| Turkey | 1.2 | 1.1 | 33 | 33 | ↑ |
| Mexico | 1.2 | 1.1 | 34 | 33 | ↑ |
| Ireland | 1.2 | 2.2 | 35 | 18 | ↓ |
| Russia | 1.0 | 2.3 | 36 | 15 | ↓ |
| India | 0.9 | 0.7 | 37 | 37 | ↑ |
| Vietnam | 0.8 | 0.9 | 37 | 36 | ↓ |
| Philippines | 0.6 | 0.4 | 39 | 40 | ↑ |
| Indonesia | 0.5 | 0.6 | 40 | 38 | ↓ |
| Egypt | 0.4 | 0.4 | 41 | 40 | - |
| Nigeria | 0.2 | 0.5 | 42 | 39 | ↓ |
| Bangladesh | 0.2 | 0.2 | 43 | 42 | - |

FACTORS INFLUENCE PENETRATION OF INSURANCE

- A. Product Factors
- B. Macroeconomic Factors
- C. Consumer Factors
- D. Institutional Factors

A. PRODUCT FACTORS

- Motor insurance remains pre-dominant in developing countries insurance market.
- The reduction of motor insurance in the portfolio as a percentage with increase of other types of insurance is a sign of increase in penetration.
- Good product offerings and effective marketing enhances penetration
- Keep products simple
- Products should be cost effective and affordable
- Any kind of market agreement / tariff on product pricing curbs innovation.
- In the same breath I would say we should have clear NO for practices which are cut throat and suicidal.

B. MACROECONOMIC FACTORS

Macroeconomic factors;

1. Coincident Index (eg. GDP, retail sales, industrial production index)
2. Employment Rate (from Export Business or otherwise of people)
3. Consumer Confidence Index – reflects optimism
4. Export Price Index – monthly index of changes of prices of exported goods
5. Wealth Index – measure of living standard
6. Employment Status
7. Education Level
8. Household size

C. CONSUMER FACTORS

- In many developing countries, insurance agents were the most influential factor for selling life insurance policies among rural and urban policy holders.
- Other consumer factors were;
 1. Income
 2. Economic status
 3. Product attributes
 4. Price
 5. Convenience of getting the product and knowledge of product and product benefits

D. INSTITUTIONAL FACTORS

- A case study- Zanzibar Insurance Corporation;
- The study revealed ZIC's performance was affected by following factors;
 1. Delay to pay premium on time affects servicing of clients and claims.
 2. Fake and exaggerated claims – it is a cancer. To be tackled by all stakeholders ruthlessly.
 3. Operation of insurance were influenced by assessors and investigator due to delay in producing report on time-in other words delay in claim settlements.
 4. Training of insurance agents - one can use standardized and cost effective training videos. Thus will reduce errors and subjectivities.

Continuation

5. Sales promotion with fair pricing.
6. Other factors – tax incentives for life insurance premium payment. Similarly some countries give tax incentives for payment of medical insurance premium.

MOST INFLUENTIAL FACTORS

The study concluded that macro economic factors has the highest level significance followed by

1. Product factors
2. Consumer factors
3. Lastly Institutional factors

MOST DOMINANT FACTOR FOR INSURANCE PENETRATION

- If I have to mention one single factor which can really drive insurance penetration is degree of development in the country, higher the development higher will be the production of goods & services and higher will be the demand for insurance
- If you look at the chart of insurance penetration various countries shown in the beginning, least developed country will have lowest insurance penetration and developed country will have higher level insurance penetration.
- Thus you would see for penetration to raise substantially development of the country as a whole and both life and non life insurance should grow in a big way.
- Simultaneously we can bring a larger portion of the population into the ambit of insurance through micro and agricultural insurance.

INSURANCE PENETRATION IN AFRICA & IT'S RESPONSE

According to the World Economic Forum, three trends continue to fuel Africa's growth.

- By 2034 Africa is expected to have the world's largest workforce of 1.1 billion people.
- The continent will continue to urbanize. It's middle class, currently standing at approx 350 M people will expand and it's consumption will outpace GDP growth.
- Thirdly technological change will further accelerate growth, reduce costs and enhance productivity. East Africa is already the world leader in mobile payments. By 2020 Africa's smart phones penetration will be at least at 50%, up from 2% in 2010.
- In addition to these mega trends, infrastructure spending will continue to outpace GDP growth.

INSURANCE PENETRATION IN AFRICA AND IT'S RESPONSE (CONT..D)

- The continent's insurance penetration is at 2.8% below the world's average of 6.3%.
- South Africa is the biggest and significant contributor.
- Most of the growth that Africa experienced in recent years was from Minerals and Hydrocarbon resources.
- But rural areas did not benefit much from this.

AGRICULTURE INSURANCE AND INSURANCE PENETRATION

- Agriculture dominates Africa's economies - accounting for 16% of the continent's GDP.
- It employs 60% economically active population and 70% of poorest communities.
- Agriculture insurance helps to gain access to financing agricultural inputs like fertilizers, higher yielding seeds which increases productivity.
- Despite its relevance penetration is still low.
- In India for over 30 years the Government has been sponsoring agricultural insurance, of course with a lot of changes from time to time.
- Recently the Indian Government realized that farmers were still not benefitting and hence government is paying now almost entire premium on behalf of farmers and this has resulted in big growth area for Insurers too.

AGRICULTURE INSURANCE AND INSURANCE PENETRATION CONT...

- Closer to home in Kenya, Uganda and Rwanda, respective Governments have started giving premium subsidy between 40 – 50% for farmers who have joined National Agricultural Insurance Scheme.
- In all these countries, the Government is a designer and architect of Agricultural Insurance Schemes.
- For agricultural and micro insurance to succeed as mentioned above, collaborative efforts of the private sector investors, agricultural finance, micro finance institutions, technology firms, mobile companies, Insurers and Reinsurers, farm input companies etc should move in a cohesive way under the direction of the Government.

REINSURERS FACILITATE EXPANSION

- Few large scale programs like Agriculture and Climate Risk Enterprises (ACRE), Africa's largest agricultural insurance scheme insures more than 400,000 farmers in East and Central Africa.
- African Risk Capacity (ARC) a catastrophe Insurance pool backed up by the African Union has helped to build scale and improve awareness.
- In February 2017, World Bank's Global Index Insurance Facility (GIIF) and Africa Re launched a joint risk sharing facility.
- GIIF provides a significant subsidy in 3 pilot countries – Nigeria, Kenya and Rwanda.
- Agricultural Insurers in these countries are reimbursed if their loss ratio exceeds 75% of their net premium.

KENYAN EXPERIENCE

- On a serious note, In Kenya, Micro Insurance took off in 2013. Current Kenyan Micro Insurance premium is \$ 16m of which 70% of the premium is underwritten by three companies Britam writes 45% of the Kenyan Micro Insurance.
- Apparent success factors of Britam
 1. Independent unit
 2. 95% of Micro Insurance is health
 3. Technically driven

MAIN PRODUCTS IN THE MARKET

- Sacco Afya - this is a product for Sacco members offering inpatient, accidental death cover, accidental total and permanent disability cover and an inbuilt funeral expenses. Also credit life insurance cover to members taking loans.
- Afya Tele (medical and funeral) afyatele is a corporate (group) medical insurance cover with an inbuilt funeral benefit . This policy can be taken as an Organization or as registered groups with minimum of 10 members. It provides both inpatient and outpatient cover.

MAIN PRODUCTS IN THE MARKET(CONT..)

- Endeleva Elimu - This is a school fees guarantee for the continuity of a pupil or student's education, in primary or secondary school respectively, only when there is demise or permanent disability of a parent. The cover is administered by the school and included in the fees in order to give equal opportunity to all children. It targets Private schools, both primary and secondary.
- Kilimo salama - Kilimo Salama (index based) covers farm crops against various perils such as losses due to adverse weather conditions (floods, hailstorms, drought etc.), barn fire, uncontrollable pests, theft etc. The sum insured can be the farmers input costs, output (expected yield) or both.

MAIN PRODUCTS IN THE MARKET(CONT..)

- Azuri - This is a partnership between Azuri Technologies, a leading provider of pay-as-you-go- solar power and APA . It is a low-cost micro-insurance product for Azuri solar power customers across Kenya. Azuri customers benefit from the income cover when hospitalized, in addition to cover for funeral expenses of KES 1,000 and KES. 10,000 respectively.
- **Cover for little cab drivers** – this cover is for all Little Cab drivers' phones, Little Cab drivers who are unable to work due to being hospitalized can claim up to KES 2,000 per day. In addition, the policy also covers funeral expenses up to KES 50,000 upon death of the insured paid to a named beneficiary.
- Some of these covers are available in our market also. When a product / process doesn't yield expected result, do not take it as a failure, tweak it or turn it around.

REASONS FOR LOW INSURANCE PENETRATION: A SOLUTION PROVIDERS VIEW

- Factors for low insurance penetration;
 1. Focus is on Business Customers.
 2. Less awareness and education on products to end user.
 3. Accessibility is a main concern.
 4. Still Insurance is a technical beast. We need to ease the overall meaning of Insurance for a customer- which should not be a Policy but a need.
 5. Propensity to consume based on affordable sachets.
 6. Broker lead market where all initiatives are broker dependent. It need to involve more partners in ecosystem.
 7. Servicing as a culture is yet to be seen.
 8. Penetration is low because the stake holders are not driving it passionately, we are still addressing it as commodity but it's a service.

INSURANCE PENETRATION: A SOLUTION PROVIDERS VIEW CONT

What can be a game changer;

1. Governmental support
2. Micro Insurance
3. Price affordability
4. Education, Awareness, Communication & Transparency
5. Direct Retail product focus. And enhanced partnership with brokers on B2B business
6. Service culture than technical / policy culture
7. Digital transformation of processes, products, platforms and Mindset
8. Commitment to Drive than a tick-box
9. Selection of right partners to drive the business (Full Service and 360 degree oriented than piece meal technical solutions)
10. Think and Action tank.

SOURCES

- **The strategic journal of Business and Change Management.**
- **Driving up Insurance penetration in Africa by Corneille KAREKEZI .**
- **Micro Insurance paper no. 26 by ILO.**
- **Information from AKI.**

THANK YOU...