



## Tanzania Access to Insurance Diagnostic

### Document 8: Understanding consumer needs and segmenting the target market

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*Diagnostic series authored by Cenfri on behalf of FinMark Trust:*

Christine Hougaard

Mia de Vos

Nigel Bowman

Nokwanda Mahori

Hennie Bester

Tel: +27 21 913 9510

E-mail: [tessa@cenfri.org](mailto:tessa@cenfri.org)

Physical address: The Vineyards Office Estate, Farm 2, Regent House  
99 Jip de Jager Drive, Bellville, 7530, South Africa

Postal address: PO Box 610, Bellville, 7535, South Africa

[www.cenfri.org](http://www.cenfri.org)

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## About the Tanzania Access to Insurance Diagnostic series

This is *Document 8* in a series of 8 documents that together comprise the findings of the Tanzanian Access to Insurance Diagnostic. The series consists of one headline findings summary and seven input documents, each focusing on a specific thematic area, that build up the evidence base to the headline findings:

- 1. Headline findings.** This document summarises the main findings of the diagnostic study across the other documents, then concludes on market potential and opportunities, the challenges to be overcome and the strategic imperatives to unlock such potential.
- 2. Context.** Document 2 outlines the macroeconomic, socio-economic, political economy and financial sector context within which the Tanzanian insurance market develops.
- 3. Insurance uptake.** Document 3 estimates the current penetration of the microinsurance market as percentage of adults in Tanzania and how insurance uptake has evolved in recent years.
- 4. Insurance industry trends.** Document 4 analyses recent trends in the insurance industry in terms of premium volumes, players and performance, asking what the catalyst for the next wave of growth required towards an inclusive insurance market will be.
- 5. Product and distribution landscape.** Document 5 considers the current suite of products in the Tanzanian microinsurance landscape. In addition, it unpacks trends in insurance distribution.
- 6. Health insurance dynamics.** Document 6 takes a closer look at the health insurance dynamics in Tanzania, given the unique features of the health insurance landscape.
- 7. Regulatory framework.** Document 7 considers the role of policy, regulation and supervision in building an inclusive insurance market by unpacking the key features of the insurance regulatory framework, as well as ancillary areas of regulation.
- 8. Understanding client needs.** Document 8 draws on focus group and demand-side survey research to better understand the economic realities, risk experience, coping strategies and knowledge and perceptions of insurance of the Tanzanian adult population. On this basis, it conducts a segmentation exercise whereby the target market is grouped into distinct segments and the profile of each is explored.

The series was designed so that readers can focus on the Headline Findings document, drawing on specific input documents for the evidence base and as per their area of interest.

The full series is available at: [www.fsd.or.tz](http://www.fsd.or.tz) and [www.finmark.org.za](http://www.finmark.org.za)

The series has been submitted for review by the global Access to Insurance Initiative ([www.access-to-insurance.org](http://www.access-to-insurance.org)) and, upon acceptance and subject to further refinements, will also be published under the banner of the Access to Insurance Initiative.

## CONSUMER NEEDS AND SEGMENTATION: DOCUMENT 8 SYNOPSIS

Understanding the nature of the target market is critical to inform market development strategies. This document draws together demand-side insights on risk protection needs, coping strategies and perceptions of insurance from the 2009 FinScope survey as well as qualitative market research conducted as input to the diagnostic. It then identifies the total opportunity for microinsurance in Tanzania and unpacks the nature of the opportunity among four discreet target market segments.

### Key findings

#### *Large potential demand for insurance:*

- Healthcare expenses and the death of a breadwinner are the most prominent risks in people's minds. In response, they employ a variety of coping strategies, including turning to family and the community for contributions, borrowing, drawing on savings or selling trading stocks or livestock.
- The combination of risks faced and sub-optimal coping mechanisms employed indicate a latent demand for especially health and life insurance and people would be willing to dedicate part of their constrained budgets to insurance if it offers value to them.
- However, though insurance awareness is relatively high, few spontaneously identify insurance as coping strategy and a true understanding of insurance is lacking. Mostly, people associate insurance in general with a specific product (mostly health insurance) that they or somebody else they know have been exposed to.
- Where such experience is adverse, as is often the case with public health insurance, it taints the reputation of insurance in the community and undermines trust in it
- Yet these demand-side barriers (perceptions, trust) are often still trumped by access barriers: people feel that affordable insurance products with features appropriate to their needs are simply not available in their communities.

#### *Demand potential not yet realised:*

- The report identifies the total opportunity for microinsurance – those likely to have unserved insurance needs and that are not too poor to afford insurance – to be up to 66% of adults (16.4m individuals). As only 19% of adults (4.6m individuals) currently have some form of insurance, this indicates a significant untapped opportunity, should the demand-side and access barriers highlighted above be overcome.

#### *Unlocking opportunities requires out of the box thinking:*

- The report uses a segmentation exercise to provide a window into the nature of the untapped opportunity. The results indicate that there are still some low-hanging fruit opportunities among the formally employed and banked market as well as mobile money clients, but that these opportunities are not without bounds.
- It is unlikely that "business as usual" will be sufficient to open up the bulk of the market. Innovative distribution through viable, trusted aggregators, as well as flexible product features will be required, should insurers want to reach the rural, informally employed market at scale.

# 1. Introduction

The purpose of this document is to build a picture of the nature of the microinsurance target market in Tanzania. It draws on two key sources:

- insights on consumer behaviour, needs and perceptions drawn from the 2009 FinScope Tanzania survey; as well as
- qualitative market research in the form of focus group discussions and individual interviews that were conducted as input to this study<sup>1</sup>.

## Box 1. Qualitative market research: rationale and methodology

*What are focus groups?* Focus group discussions (FGDs) are a qualitative market research tool. The central methodology is to form small groups (usually 8 to 10 individuals) and then to test their views and perceptions on a certain matter through interactive discussion between the group and a professional moderator. The objective of the focus group discussions was to understand the lower-income market's income and expenditure profile, experience of risk (the severity of different risks) and interaction with insurance. It also prompted their decision-making criteria (whether to buy or not to buy insurance) and their perceptions of the insurance market.

*Why focus groups if survey data is available?* Though survey data can also shed light on these factors, it does not provide the level of qualitative insights required to understand perceptions and the motivation behind behaviour. Focus groups and individual interviews provide the opportunity to probe these issues through discussion. As the findings are *qualitative*, however, they cannot be used to draw valid conclusions on the population as a whole, but can only give an indication of the experience of the sample. Thus we use a combination of quantitative findings from the FinScope survey and qualitative focus group findings in the analysis.

*How were the groups constituted?* The groups were divided into three main categories: **uninsured** (13 groups, 96 individuals), **compulsory insured** (4 groups, 30 individuals) and **voluntary insured** (3 groups, 23 individuals). Within these categories, groups were furthermore distinguished according to:

- **Gender:** 51% of the total of 149 respondents were female and 49% male;
- **Livelihood:** 10 groups included employed persons such as teachers, nurses and office clerks, as well as self-employed in the business or trade sectors, while 10 groups focused solely on those that are self-employed in the agricultural sector
- **Geographical setting:** 6 group discussions covering 44 individuals were conducted in rural villages in the Kilimanjaro region, 10 groups in urban areas (6 groups covering 45 individuals, in Dar es Salaam and a further 4 groups covering 29 individuals in Moshi) and 4 groups covering 31 individuals in semi-urban Kisarawe.

Individual interviewees were selected from 18 of the 20 focus groups.

*The market research report (DPC, 2012) provides a full overview of the focus group composition and the methodology followed. The reader is also referred to this document for a full overview of findings.*

*Structure.* Section 2 sketches the economic realities of the target market that frame the current and potential demand for insurance in Tanzania. Section 3 then takes a closer look at what the focus group research and survey analysis reveals regarding the external and

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<sup>1</sup> Development Pioneer Consultants (DPC), 2012. *A demand for insurance in Tanzania: Views of insured and non-insured in the low income market*. Focus group findings report. Available at: [www.fsd.or.tz](http://www.fsd.or.tz). We would like to acknowledge the authors, Annette Altvater, Linda Helgesson Sekei, Adelaide Kisinda & Lori Fowler as this document draws heavily on the focus group report.

internal factors driving insurance demand. This forms the basis for estimating the total size of the market opportunity in Section 4.1, followed by an exercise to segment the Tanzanian adult population into distinct groups in terms of likely demand for insurance in Section 4.2. Section 5 concludes on the implications of the demand-side analysis for insurers, distribution channels and the regulator.

## 2. Demand side context

*Document 2* sketches the socio-economic profile of the Tanzanian population as being largely rural and dependent on agriculture for their livelihoods, with correspondingly high levels of poverty.

*Constrained budgets.* The focus group research confirms the picture emerging from the socio-economic data. A recurring theme across groups, regardless of their composition, is the fact that they need to proactively budget to make ends meet. There just never seems to be enough money to cover day to day expenses (of which food, rent – in urban areas – and expenses regarding education of children were emphasised). Furthermore, people are expected to contribute to weddings and other events in the community<sup>2</sup>. The following quote reflects the daily need to make ends meet while saving up for lumpy expenses:

“In my case, education is the most demanding event in my life, for I have got children who are all in their primary ages, who go to school every day. There are a lot of expenses I have to carry to support their education, from their bus fare to go to school, pocket money, school fees and other middle of the year school expenses. Then I have to provide food for the family, which costs by itself more than what I earn. Much of the time you find that you have to spend more than what you really earn.” (Group 2: Voluntary insured men, Dar es Salaam)

As will be discussed in Section 3, risky events, when they happen, therefore place financial stress on the household, forcing them to cope with the resultant expenses in a number of ways. Though they try to save, savings never seem to last. This is particularly true for the expenses relating to sickness:

“What brings about health expenses to be more costly and uncertain in nature, is due to the fact that there is never a definitive timeline for any disease. Some diseases may take even years to cure while others may take us a day or two. Moreover, whether you have income or not you have to care for a sick person. However in a case like theft, if someone steals your mobile phone, as important as it is to have a phone, it won't kill you to stay a day, a week or even a month without a phone. This is not the case when it comes to health matters.” (Group 2: voluntarily insured men, Dar es Salaam)

*Low incomes do not mean that people aren't technologically savvy.* Most focus group respondents were comfortable using the mobile phone as more than just a communication tool. The vast majority had their own mobile phone or ready access to a mobile through a

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<sup>2</sup> Wedding contributions to neighbours, friends and family members were mentioned as an unexpected and unavoidable social obligation in rural as well as urban groups, among male as well as female groups. Generally, the impression was that you are expected to contribute to all weddings for which you receive an invitation card and that sometimes the amount to be contributed is even stated explicitly on the card. There is greater social pressure to contribute for weddings than there is to contribute to funerals, as generally weddings are more expensive than funerals.

family member or friend. About half the sample knew about mobile money models and a further quarter indicated that they also know how it works. The discussions suggested that the familiarity with the mobile phone as tool has laid the groundwork for people to be receptive for innovative financial services offered on the back of the mobile network.

“I would accept that they use mobile phones. For example, they would say they take 300 once you add your air time top-up” (Group 13: non-insured men, urban Kilimanjaro - Moshi)

*Poor, rural population implies limited affordability.* It is clear from the discussion above that low incomes are likely to be a real challenge for the microinsurance market to achieve scale. Even those who do not live below the breadline have limited resources to spare and insurance may not be first on the priority list. Nevertheless, as the discussion below will show, people are also under the impression of various risky events facing them and the need to cope with the resultant financial shock. The insurance decision therefore becomes a careful trade-off where people require adequate explanation of features, a good value proposition and appropriate product features – available to them in their local communities – to tip the balance. It would seem from available demand-side data that the mobile phone can be a powerful tool in insurers’ quest to achieve all of the above.

The next section takes a closer look at the risk experiences, coping strategies and various internal and external factors driving individuals’ insurance demand in Tanzania.

### 3. Drivers of demand

In order to assess the potential demand for microinsurance, it is important to get an understanding of what risks the target market are facing and how they cope with the financial consequences of unexpected events.

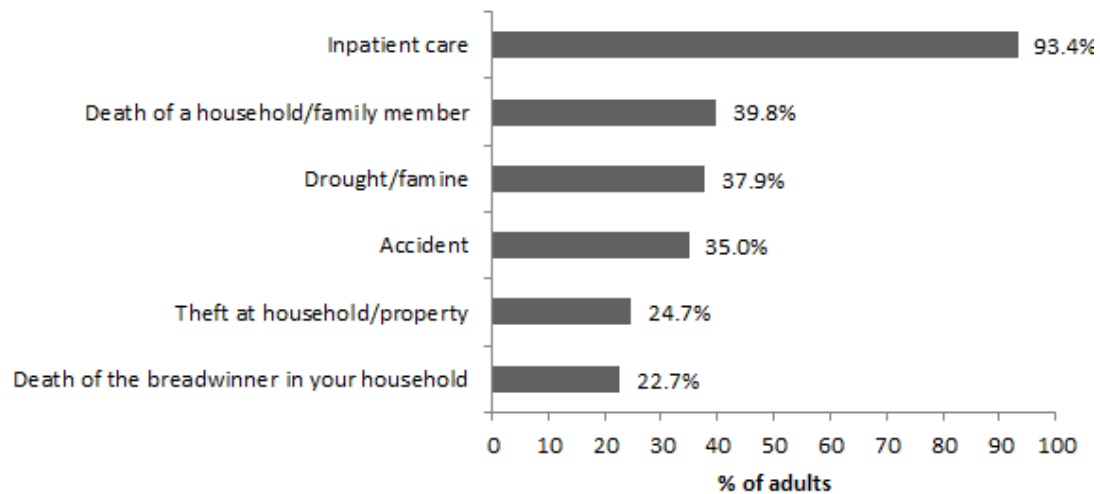
#### 3.1. Risk experience

*Health, followed by death top-most risk in people’s minds.* In an open-ended question in the FinScope survey on what unexpected events respondents think are most likely to happen to them, the vast majority of the adult population (93.4%) indicated that they are concerned about having to be admitted to a hospital for medical care. As the following quote from the focus group discussions shows, the impact of medical expenses on the family budget can be quite severe:

“When my child gets sick, I have to wait until I realize that by using tablets from the pharmacy he is not going to get relief. I need to wait in order to collect enough money to take him to hospital. And in order to take him to hospital you need to cut off some important services for the family. You can sometimes tell your family that we have to reduce the number of meals per day.” (Group 13: non-insured men, urban Kilimanjaro - Moshi)

After health expenses, death is the second most common risk: 39.8% of adults fears the death of a household or family member. Another 22% specifically mentioned death of a breadwinner as a concern, implying that almost two thirds of adults see death as an inevitable risk event likely to impact financially on them (see Figure 1).





**Figure 1: Potential risk events**

Source: FinScope 2009

The focus groups confirmed the survey findings that people regard the possibility of death in the community or family as a day to day reality, something that they realise may happen at any time.

*A variety of other risks also important.* About 38% of adults were afraid of going hungry due to **drought** – an indicator of the high reliance in the population on agriculture. This was confirmed in the focus group discussions, where it was put forward that instead of relying on their own farm for food, in times of drought they have to buy even staple food:

“When you go to farm sometimes there is no rain so you come back home with nothing. You have to find an alternative way to feed your children, maybe by buying beans or corn just to feed your children.” (Group 17: non-insured women, rural Kilimanjaro)

According to the survey findings, a significant proportion of adults (35%) were concerned about the health-related expenses arising from **road accidents**, as the following focus group quote illustrates:

“Nevertheless, accidents have to be in the top three too. I’m saying this because if you decide to travel to Morogoro today, along the way you will certainly find two to three road accidents.” (Group 3: non-insured men, Dar es Salaam)

There is increasing concern about **theft** of household goods and respondents mentioned that they often diversify their main source of income in some way, such as by rearing chickens. Some respondents felt very vulnerable to theft, coming home in the evening only to find that some of their chickens have been stolen. There was also a general sense of frustration with law enforcement:

“You can go to report but nobody seems to care or make any follow up, so things just remain as they are. Or something can be stolen and you phone the police and think they will come early but they don’t. Sometimes thefts occur early like seven o’clock in the evening and the police arrive at two o’clock. Where will you find that thief? When they come they just take our

statement and nothing is done thereafter". (Group 17: non-insured women, rural Kilimanjaro)

Though fire did not rank among the top risks in the survey findings, some focus group respondents, especially in urban areas, highlighted the potential financial consequences of a fire in the community:

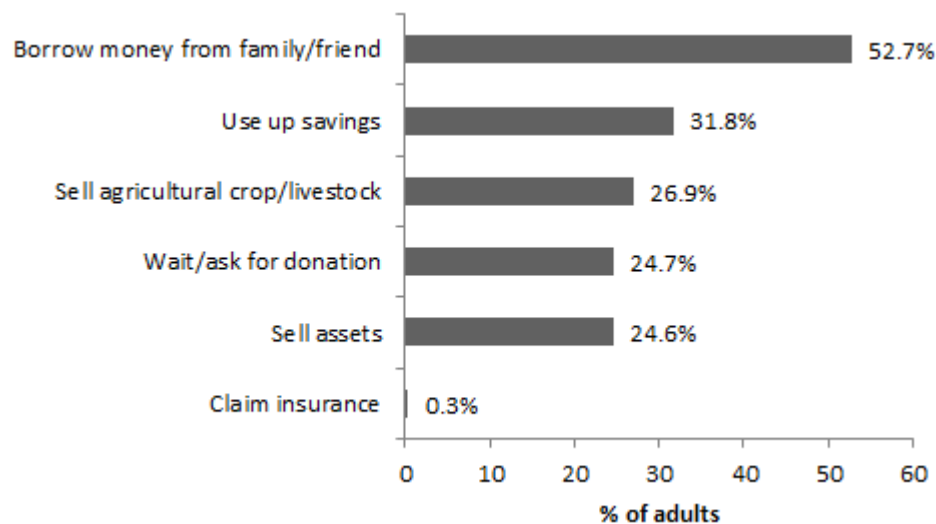
"When your property is destroyed by fire you have to start your life from scratch so it costs a lot of money". (Group 17: non-insured women, rural Kilimanjaro)

The financial risk of fire is exacerbated for small traders who stand to lose their working capital.

*Agribusiness owners vulnerable to weather fluctuations.* In response to a question on most important risk events faced, the majority of the agribusiness owners sampled in the AgFiMS Tanzania 2011 survey<sup>3</sup> (70.7%) indicated that weather fluctuations are the most significant risk to their business, followed by pests and diseases (10.6%) and price fluctuations (9.4%)<sup>4</sup>.

### 3.2. How do people cope with risks?

*FinScope findings show that coping with risks undermines financial progress.* In response to how the respondents would cope financially if an unexpected event were to happen to them, more than half the adult population (52.7%) said that they would rely on loans from friends and family; 31.8% indicated that they would use their savings and 26.9% said that they would sell their agriculture crop or livestock (see Figure 2):



**Figure 2: Coping mechanisms**

Source: *FinScope 2009*

<sup>3</sup> The AgFiMS survey is a comprehensive, nationally representative survey tool focussing on potentially commercially viable agricultural enterprises, including producers, processors and service providers. AgFiMS collects data on the demand for, and supply of, financial services in the agricultural sector. Refer to: [www.agfims.org](http://www.agfims.org)

<sup>4</sup> AgFiMS Tanzania 2011. *Technical Demand Side Report*.

*Agribusinesses diversify income in response to risk events.* According to AgFiMS (2011), income diversification is the most prominent coping mechanism amongst agribusiness owners (86.1%)

These coping strategies may not be sufficient (in the case of family contributions) or may prevent households and businesses from building assets and breaking the poverty cycle. This would signal a need for insurance. Yet only a negligible proportion (0.3% of adults according to the FinScope 2009 survey and 0.5% of agribusinesses according to AgFiMS 2011) saw insurance as a potential way to avoid financial losses stemming from risk events.

*Focus group findings confirm the need to “make a plan” through various coping strategies.* The survey findings are confirmed by the focus group research: the most frequently mentioned coping strategies were assistance from family members and groups, loans, savings, sale of produce, day labour and, for those who were employed, assistance from an employer. The fact that many people engage in income diversification (e.g. trading, farming or rearing livestock on the side) can also be seen as an implicit risk mitigation tool. Respondents tended to use different coping strategies for different events. So, for example, the following discussion among respondents in one group on the severity of the impact of illness versus death shows that community contributions are the norm for some risk events, but not others:

“Moderator: Which have the worst financial consequences?

E2: Deaths

E1: No, illness because if someone dies people will help you but it’s difficult to get support for your illness.” (Group 18: non-insured men, rural Kilimanjaro)

“Illness, because it burdens you personally unlike a funeral where the neighbours might help. In the case of illness, until the neighbours help you it’s when you are really sick. (Group 4: compulsory insured women, Dar es Salaam)”. (Group 5: non-insured women, Dar es Salaam)

“When funerals happen that is normally not a big problem. When a funeral happens, for example to me mama Adela, the relatives and neighbours will come running and they will fill the place. But if I am in need of money, I ask a relative. To a funeral many people will come, and if your things have been stolen people will come give their sympathy. But when you’re sick - no contributions. Although if it’s a funeral they will contribute, they will buy the casket, wrappings for the dead, they will do everything, even help you to transfer the body.” (Group 5: non-insured women, Dar es Salaam)

As discussed in *Document 6*, expenses relating to illness often need to be covered through loans, due to limited savings. Although there is support from relatives in the case of illness, this support is more social than financial - for example by visiting and bringing food, but not money. In the event of death, however, financial contributions from relatives, friends and other social networks are regarded as compulsory.

Though funerals can be quite costly and people would travel from afar to attend them, if possible, family and community contributions can be taken for granted. It is regarded as a social responsibility to contribute. These contributions are as a rule sufficient to ensure that the individual who has lost his/her beloved one does not have to worry whether they’ll be able to meet the expenses. Thus funeral expenses did not rank highly as something requiring a proactive coping strategy beyond the expectation of contributions. Correspondingly, the survey findings did not pick up on informal burial societies at community level as a risk coping mechanism. The focus group research confirmed that most people do not belong to

burial societies (called “vikundi vya kuzikana na kusaidiana”). It was only mentioned in a group with urban, formally employed respondents.

People also often combine one or more strategies. For example, if family and community contributions are not enough, they would deplete savings and, if even that is not sufficient, sell assets:

“The first strategy is to ask for help from your relatives and close friends. Another strategy is that in case you do not have relatives or close friends to look to, then you have to sell something valuable in your possession or use that valuable item as collateral to borrow money from several sources”. (Group 3: non-insured men, Dar es Salaam)

Furthermore, it was common across focus group respondents to belong to different groups, from rotating savings groups/merry-go-rounds (called KIBATI or UPATU<sup>5</sup>) to VICOBA (village community banks<sup>6</sup>), to SACCOS and groups formed based on their village of origin or livelihood activity and are often used indirectly as a coping strategy. For example, people would take out a loan from a SACCO or may ask for a loan from KIBATI members. However, respondents were clear that it is not possible to rely on them fully, especially KIBATI, which can be quite unreliable if people do not have a regular income and hence miss contributions:

“In our [Merry-go-round], every meeting we have to leave a certain amount of money to the house that we go to on that particular day. Most of the time there is poor attendance and that leads to giving a small amount of money. So contributions become small and that is a problem.” (Group 16: compulsory insured women, rural Kilimanjaro).

*Combination of risks faced and sub-optimal coping mechanisms expose latent demand for health and life insurance.* The FinScope survey and focus group findings paint a consistent picture of risk priorities and coping strategies. Healthcare expenses are head and shoulders above other risks in requiring a coping response. The risk of death is prominent, but is a less immediate priority in terms of coping with expenses. Other risks related to property and livelihoods (e.g. theft, fire and drought) also require some inventiveness in order to cope with the financial impact. These findings all point to a potentially important role for **health insurance**, as well as personal **accident insurance** and, to a lesser extent, **asset-related insurance**. While there is no apparent need for funeral insurance, **life insurance** aimed at tiding the family over when a breadwinner dies and providing for lumpy expenses such as children’s education would offer a powerful value proposition given risk experiences. This is confirmed by the FinScope findings, which indicated that 93.4% of those who said that they

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<sup>5</sup> This is an informal rotating payment scheme, often consisting of women in a group of between 10-30. A small payment is made by each member to one member (on a weekly or daily basis) who receives this as a lump sum. It is the most common among women, and is a mechanism used in low-income as well as in high-income segments, in neighbourhoods, in work groups and in offices. Members of a merry-go-round may, but are not obliged to contribute to other members in the case of emergency. Respondents mention that the group often falls apart before everyone has had their turn and it is not something on which they can rely for support (DPC, 2012).

<sup>6</sup> VICOBA/VSLA (Village Community Bank/Village Savings and Loans Association) are defined as an informal savings and credit scheme because these groups are not regulated. However, they are quite formal in the sense that the group has a constitution, a chair person, secretary and a treasurer, all elected by the members. A VICOBA/VSLA group is formed with technical assistance from an institution such as an NGO or a religious organisation. The group meets weekly and a trainer assists them in group formation and finance for a number of weeks and then oversees the group. The members buy shares weekly (save) and also put aside money in a social fund which can be used for emergencies. After a period of time, the members can borrow money from the group, often three times the value they have saved. The group sets their own interest rates which are either returned as dividends at the end of the year or reinvested as loan capital. No outside capital is provided to VICOBA/VSLAs (DPC, 2012).

would like to have an insurance policy would consider taking out health insurance, while 76.5% said they would take out life insurance.

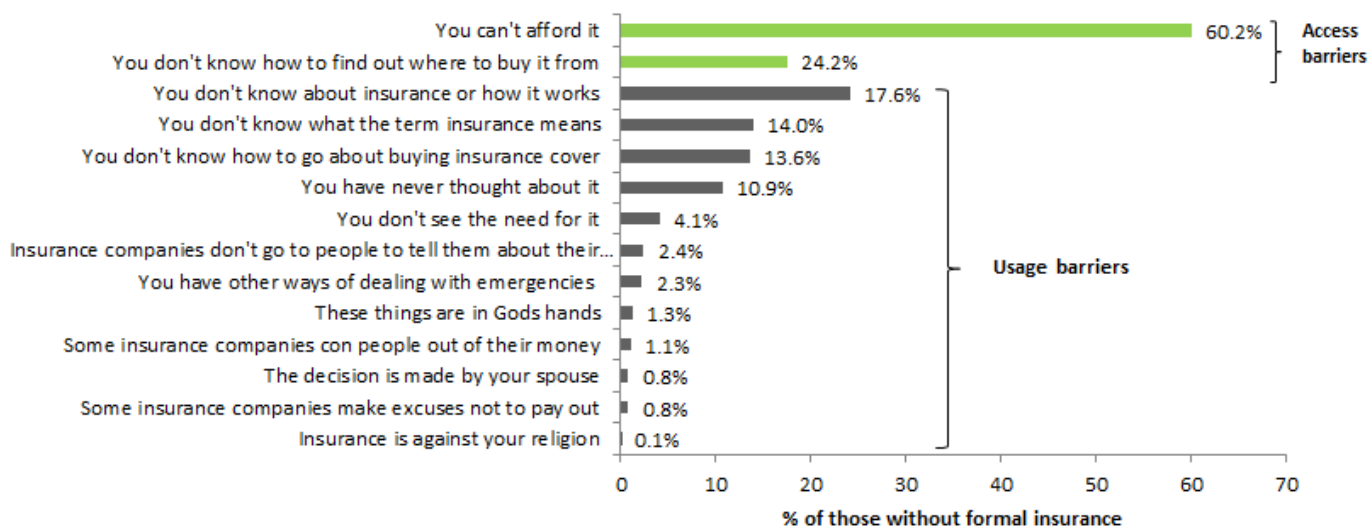
*Potential vs. actual demand mismatch.* Yet there is still a significant gap between potential and actual demand. The survey findings and focus group research alike indicate that only a small proportion of people and agribusinesses currently even consider insurance as an option to smooth financial shocks resulting from risk events. This is evident from the usage figures quoted in *Document 3*, in which an estimated 4.6 million Tanzanian adults (19% of the adult population) are now covered by insurance (up from the 6.4% reported in the 2009 FinScope survey). Those with cover mostly have compulsory health insurance through their employer or are participating in community-based health insurance schemes. Take-up of other types of insurance is still virtually negligible. Thus, though insurance usage has grown substantially in recent years, there are still large unserved risk cover needs.

### 3.3. What stands between potential and actual demand?

*Both access and usage barriers prevent actual usage.* FinScope survey respondents stated various reasons for not having insurance. The reasons quoted can relate to either access or usage barriers:

- **Access barriers** are defined as factors that explicitly exclude an individual from using insurance, even if they had wanted to use it. They are therefore external factors outside of the individual's control. Access barriers include *affordability*, *availability* and *physical accessibility* of the service to them where they live, *eligibility* (whether they have the necessary documentation requirements e.g. required by regulation or the financial institution itself or whether they qualify for use – for example, some insurance products have a minimum and maximum age of entry).
- **Usage barriers** are factors that discourage people from using insurance even though they are not explicitly excluded. Usage factors are therefore internal factors such as *perceptions* or a *lack of knowledge or trust* in insurance, which in turn can relate to the level of *financial literacy*, or *word of mouth* of other people's experiences with insurance in the community. Another important usage barrier can be the *appropriateness* of the product features to the specific needs of the person or community. For example:, focus group findings suggest that funeral insurance products providing cover for expensive funerals are unlikely to be taken up by ordinary Tanzanians for which funeral expenses are simply not a priority. Therefore, even if people technically have access to such products, they are unlikely to buy them.

As shown in Figure 3, the majority (60.2%) of the uninsured population indicated that they do not have insurance because they cannot afford it; 24.2% don't know how insurance works; 17.6% don't know how to find out where to buy it from and 14.0% don't know what the term insurance means. This suggests a need for consumers to be educated more proactively about insurance products on the one hand, but also for more appropriate product pricing and features that are in line with the realities of the target market.



**Figure 3: Reasons for not having insurance**

Source: FinScope 2009

These findings are to a large extent confirmed by the focus group research. Below we consider the insights regarding access and usage barriers, respectively:

### Access barriers

*Affordability largest access barrier.* Figure 3 shows that, according to the FinScope survey, affordability is the single biggest factor driving people's decision not to have insurance. This is not surprising given the income realities of the target market.

The amount focus group respondents were willing to pay for insurance varied substantially between the groups - between TZS 500 and TZS 30,000 per month. It is relevant to relate this information to the expenses commonly paid for unexpected events such as health care. Although this also varied, in a group of non-insured males in Dar es Salaam, TZS 20,000 per month was indicated, while a group of non-insured males in rural Kisarawe stated TZS 20,000 per three months. A group of non-insured women doing business in Moshi mentioned they sometimes as a group contribute up to TZS 50,000 if a fellow member needs health care. Since health insurance was most commonly discussed and preferred, the discussion around premiums also mainly made with reference to health insurance. There was a tendency for women to state lower amounts than males, and for the rural groups to state lower amounts than the urban groups. What was striking was that most respondents did not want to state an amount they could afford. They first wanted to hear all about the product and the rate; the value proposition would then determine whether they felt they could afford it or not.

### Box 2. How real is the affordability barrier?

There is no hard data on how many people are excluded from insurance on an absolute basis due to unaffordability.

The product landscape mapping exercise discussed in *Document 5* shows that some of the voluntary microinsurance products currently on the market have monthly premiums ranging from TZS 6,000 to

TZS 10,000 (average TZS 8,000), depending on the type and level of cover. For a very poor household earning TZS 70,000<sup>7</sup> per month, this would amount to 11.4% of their income. For somebody earning TZS 150,000 per month, it would represent 5.3% of income. Should we assume that people can spend up to 10% of monthly income on insurance and a TZS 8,000 premium, about 39% of all Tanzanian adults would be unable to afford such an insurance product.

However, microinsurance products can be much cheaper or much more expensive than the TZS 8,000 monthly premium assumed above. For example, CRDB Microfinance sells a funeral insurance policy where the brochure indicates that the individual annual premium for the *maximum* cover option is only TZS 14,250 (just less than TZS 1,200 per month). It is also not really possible to assume how much of their income a person will be willing to spend on insurance, as this depends on the person's circumstances, the nature of the product (e.g. people may be willing to spend more on health than on personal accident insurance) and the level of cover. Thus it is difficult to use an average premium and assumed percentage of income affordability cut-off to calculate how many people would be outside of the feasible insurance target market.

According to the latest available government statistics<sup>8</sup>, 34% of the population live below the basic needs poverty line. Although some of them may be feasible microinsurance clients *if* very low premium products were to be designed that are specifically tailored to their needs, and *if* they could be reached through trusted community aggregators, it is fair to assume that the bulk of these individuals would fall outside of the insurance target market. Based on this reasoning, and taking into account the 39% "back of the envelope" calculation above, we assume that **30% of adults will fall below the affordability threshold and hence not be part of the primary target market for microinsurance**. Though this is by no means a hard and fast estimate, we deem it to be a realistic bottom of the range ballpark figure.

*Physical accessibility a hurdle even if affordability was not an issue.* Apart from affordability, availability or accessibility of products, community also emerged as an access factor in the focus group research (this confirms the FinScope findings stated above, where about 18% of adults indicated that they do not know where they can buy insurance). Unless there is a specific offering through the hospital, an MFI, SACCO or another group, focus group respondents felt that insurance is simply not available to them and did not even know names of providers. The only exceptions mentioned were NSSF, NHIF and defined community initiatives such as KNCU health (in Kilimanjaro) and Tigo Bima<sup>9</sup>. Hence these isolated cases shape people's understanding of insurance in general and some associated insurance distribution solely with health insurance providers. The main information channel is word of mouth from people who have some kind of experience of insurance and this can create confusion. The focus group findings point to the need for insurers to roll out products more broadly, beyond the largest cities and with a broader target group in mind. Only if products are available can you expect people to buy them.

It would therefore seem that low uptake is in the first instance an access issue – more affordable, accessible products would be needed before people could be expected to take up insurance. Nevertheless, there are also a number of significant usage barriers to overcome.

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<sup>7</sup> The minimum wage in agriculture.

<sup>8</sup> 2007 Household Budget Survey

<sup>9</sup> Note that one group each was selected to cover KNCU (Kilimanjaro National Cooperative Union) and Tigo Bima customers, respectively. This therefore biases the results to these groups, though other groups had also heard of Tigo Bima. Nevertheless, the argument that awareness is only created where specific initiatives are available in a community still holds.

## Usage barriers

*Still far to go in creating awareness and trust.* Several of the reasons for not having insurance quoted in Figure 3 above relate to financial literacy. About a quarter of adults felt that they do not know enough about insurance to buy it, 14% do not even know what the term means, while a small proportion see these matters as “in God’s hands” and hence not something for which they should buy a financial product. The survey findings also suggest that some people do not trust insurers to deliver on their promises or even regard insurers as setting out to cheat people out of their money (though this was true amongst only a minority of adults).

The focus group findings provide further insights on awareness and understanding, perceptions and trust, respectively, as usage barriers:

*Generally high awareness; product-specific understanding of insurance.* Awareness of insurance was quite high even among uninsured groups, as the following quotes illustrate:

“If a parent had insurance and he died, the children would benefit from it.” (Group 5: non-insured women, Dar es Salaam.)

“If a house has insurance and if it burns down then insurance will cover the loss.” (Group 5: non-insured women, Dar es Salaam.)

“I have heard about insurance, and there are different kinds of insurance, that is what I heard. There is insurance for loans in case you take a loan and the money is stolen then that insurance will help you.” (Group 17: Non-insured females rural Kilimanjaro, intermediate)

“If you have a health insurance then you get treatment for free.” (Group 20: non-insured women, rural Kilimanjaro)

It is also apparent from the quotes that respondents tended to have a product-specific understanding of what insurance is. Some associated it with life insurance, other with property insurance or still with credit life or health insurance.

*Awareness does not equate to understanding.* What was also clear is that there is a mismatch between awareness, which was generally high, and a true understanding of insurance. For example, some felt that insurance was “money in the water” if there is no reason to claim:

“No advantages as every year people contribute but they don’t become sick.” (Group 20: non-insured women, rural Kilimanjaro)

They therefore understand insurance more as a savings product than as a risk pooling mechanism where you pay for the fact that your risks were covered, regardless of whether you claim or not. Even if they are aware of insurance, people are generally not well informed on the features of insurance products. Understanding the concept of not getting anything back if nothing happens is better among the insured.

*Perceptions, product-specific experiences shape understanding.* Often, understanding of insurance in general is shaped by perceptions or word of mouth in the community related to isolated experiences in particular types of insurance. Here, the health insurance provided by the NHIF is a good example. Among many in the focus group sample, NHIF and NSSF are



seen as the universe of insurance. They do not know there is other insurance beyond that and have a very strong association in their minds between (social) health insurance and insurance in general. Hence disillusionment in NHIF<sup>10</sup> tarnishes the insurance reputation more broadly. Some even see compulsory insurance (with specific reference to NHIF contributions) as a type of tax rather than as an insurance product providing value to them:

"I think it's some kind of a future payment that you contribute to for now. Nevertheless sometimes you never get this payment personally. For me who has been here long enough to see all the terrible things entailed with insurance, I may decide to define it as an oppressive kind of scheme where you contribute money that benefits others instead of yourself. A good example is the case with the health insurance. Actually insurance is some kind of tax to me, they have just changed its name to make it sound friendly." [Laughter breaks out] (Group 12: compulsory insured men, urban Kilimanjaro - Moshi, all teachers)

Insurance is perceived as for those in formal employment – or given to the poor or children by NGOs. Yet respondents expressed a strong opinion that insurance is *needed* the most by the low-income market. They therefore pick up on a supply-demand mismatch.

*Face to face engagement needed to overcome lack of understanding.* The respondents had many questions about the details of insurance. This indicates a willingness to engage, but also points to general confusion. Some respondents had heard advertisements for insurance on the radio but still had not grasped the messages:

"To be honest, I know nothing about the companies but what I heard is your insurance for accident, your insurance for life, just hearing the songs, but I don't understand about the companies." (Group 8: Not Insured Female semi-urban, Kisarawe)

A strong preference was expressed for the insurance offering to be explained to them in person. Some related experiences of an agent coming to explain insurance to the SACCO, MFI group members or another association, on the basis of which they made a collective decision to sign up for it:

"After giving the seminar, they educated us on the meaning of this insurance and then people decided to go for it. For instance, they told us that when a person dies and has a loan they deduct an amount of money from the insurance to compensate for the loan taken." (Group 1: voluntarily insured women, Dar es Salaam)

Mod: "What if one of the group members does not pay?"

R1: "It's compulsory because we all agreed voluntarily." (Group 1: voluntarily insured women, Dar es Salaam)

Even in the case of insurance linked to a mobile channel, like Tigo Bima, there was a strong expressed need for face to face explanation upfront by an agent. It does not necessarily need to be on an individual basis. The Tigo Bima focus group all belonged to a small

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<sup>10</sup> As was discussed in *Document 6*, reasons quoted for this disillusionment were that NHIF contributions are automatically deducted from their salaries, sometimes without their even knowing that they have insurance, that different people are classified into different categories of NHIF cover – which people feel are against Mwalimu Nyerere's principles of social equality – poor service delivery, and the fact that they are often still left out of pocket or have to wait when others with cash can get treatment.

transport business group and the Tigo Bima agent came to see them at a group meeting. This confirms the important role of client aggregators as set out in *Document 5*. It must be cautioned, however, that agent-based sales are not necessarily a panacea. The Tigo Bima group discussion showed that, even after an agent explained the product to them and gave them brochures, there was still confusion about the exact features. Group members felt that the agent also did not fully understand the product:

### **Box 3. Client uncertainty: insights from a group of Tigo Bima customers**

Even after explanation by agent and receipt of brochure, there was still some uncertainty among group members on the exact features of Tigo Bima. They even felt that the agent did not know enough. The fact that the cover is free seemed to add to the confusion, even lead to some suspicion. Respondents were also not happy with the fact that cover balance is reset to zero after three months and needs to be built up again. In the case of Tigo Bima, group members were willing to sign up and “try it out” because it is free, but normally they would be reluctant to try insurance out unless it was better explained to them. The following discussion thread illustrates:

*R: The good thing with this insurance also is in the way you pay for it, it has been put in such a way that you pay for it but without feeling any pinch at all. The moment you recharge your phone with air time, they will deduct a very small amount that is not even significant. At the end of each month Tigo will text you to show you your insurance balance.*

*[...]*

*Y: I'm also a customer of this insurance, but I still hesitate in the way it's run because after every three months, your insurance balance starts again, meaning after every three months your balance is discarded and you start afresh.*

*[The members argue a bit if it's after three months or one month that your balance is dissolved for you to start afresh]*

*Mod: so what matters is what you have after every three months, is that it?*

*[The group continues to argue on whether it's after three months or one month, the moderator had to use his innermost common sense to get the right answer]*

*M: You know Tigo insurance is a bit different because it's not like education insurance, that you take out of your pocket and go and pay each month and then maybe after five years the insurance starts paying for your child's school fees. But with Tigo I tend to differ a bit with my colleagues. I don't think they even deduct anything. It's not like when you put 1,000 TShs of air time, then they will deduct say 20 TShs, not at all. Your 1000/- remains untouched. So I think this system of dissolving your balance after every three months has been put in place because in reality you don't contribute anything, it's just like the way they usually add 10% of any amount of air time you usually buy to encourage people to recharge their phones. This is just another way of doing that.*

*Mod: Have you ever heard of any case in which the deceased's relatives went to stake a claim of compensation and got paid by Tigo insurance?*

*All: No*

*Y: But what we have said so far, shows you that there won't be much paid because the insurance is not accumulative in nature. They will just look at how much air time you have purchased in the last three months, and get the balance to pay you, while in actual sense you have been purchasing airtime all year long.*

*I: Absolutely, so if in unfortunate circumstances those three months before your death, you were broke to the extent that you sold your phone to get money for medical expenses, it will mean that your insurance balance will be zero.*

*K: I also ask myself if they really just pay the amount that is in your balance or less, because to my understanding, death insurance also has categories, but they have not stipulated them. For example that if it's a normal death they may pay 100,000, if it's death due to an accident they pay 300,000 and*

so on.

Y: We were given those brochures by the Tigo Bima agents, does anyone of us have it?

[Everybody tries to search their bags and pockets]

All: No, no one has it.

Mod: Well, please let's continue, but I think there is every indication that you must go and get more informed on how Tigo Bima works.

[All in the group agree while laughing at how clueless they are about Tigo insurance]

H: That's very true, most of us subscribe to services without really knowing what they offer, nor did we ask the agents enough questions about this insurance.

K: But on the other hand even the agents that came to convince us to join Tigo insurance, were not experts in insurance. They were just hired to market a product they didn't know either because I asked them a lot of questions about Tigo Bima but they had no answers to most of my questions. So we lack ample education on these insurance products.

*Mobile communication a good complement to face to face explanation.* Despite the overwhelming wish for face-to-face contact expressed by focus group respondents, information through the mobile phone was regarded as better than no information at all:

"Sometimes, if you need to come or send their agents it will be difficult. Therefore, let them use their mobile phone as they can reach many people. For example, we have told you that it is the first time today for us to be asked about insurance." (Group 13: non-insured men, urban Kilimanjaro - Moshi)

"Through phone after agents have passed to educate us. Then through phone becomes easy, even sending money. So even if they send [information] through phone it becomes so easy, unlike when you send it before educating us, I wouldn't understand even where to begin." (Group 5: non-insured women, Dar es Salaam)

## **Trust**

The insights highlighted above regarding awareness, understanding, perceptions and the need for better explanation of product features are interlinked with the issue of *trust*. Though the FinScope findings did not highlight trust as a primary barrier, the focus group findings do point to a lack of trust in insurers:

"I think insurance is nice but those companies are not good." (Group 20: non-insured women, rural Kilimanjaro).

*Poor claims service undermines trust.* The focus group research specifically highlighted the link between claims experience and trust. As discussed in *Document 4*, some of the industry consultations indicated that client trust in the insurance sector has been undermined by the claims track record of NIC since liberalisation and before the current restructuring. This is confirmed by the focus group findings:

"Well, when I started working in those years back I was a member of national insurance. But this insurance collapsed and they never paid me a cent, so from that day I haven't been very

good friends with insurance [...].” (Group 12: compulsory insured men, urban Kilimanjaro – Moshi)

“Yes, I have got experience with the national insurance cooperation, when my mother was trying to stake her claim in those years, I’m not sure if this insurance cooperation even still exists, but they just gave us trouble throughout, and she never got paid. These companies are good when it comes to making deductions from your salary to pay for the insurance, but very poor in providing the service paid for in return. They are swindlers. Sometimes you go the extent of bribing their officers, which was not part of the contract initially.” (Group 2: voluntarily insured men, Dar es Salaam).

“To be honest they disturb a lot. For example my father died in 1995 but we were paid in instalments three times, with the last instalments paid in 2009. At the end of the day you are given money which has less value.” (Group: 16: compulsory insured women, rural Kilimanjaro)

“Yes people fail to claim because you can’t make a follow up for ten years and get nothing in return. You will eventually get tired. I have a friend also who lost her father but they fail to claim because you need to go to Dar es Salaam.” (Group 16: compulsory insured women, rural Kilimanjaro)

The sense that it’s difficult and time consuming to claim was not only limited to experiences with NIC. Respondents had the perception – rightly or wrongly – that insurers intentionally make the claims process difficult:

“What you do in situations that you can’t stake a claim, is just go back home and sleep. Even if you know the law at the tips of your fingers, you won’t have the money to pay for a lawyer and sustain the case the whole period it will be in the court. They have got money while we don’t have any to do that.” (Group 2: voluntarily insured men, Dar es Salaam)

“Even in the case of my father’s car accident it took him five years to be compensated because they have to use their own investigator to look for the cause of the accident. If it happens that you are the cause of the accident there is a way you will be punished, so there are so many problems. At the end when you are paid you are already tired.” (Group 16: compulsory insured women, rural Kilimanjaro)

As the following quote indicates, the market expressed a need for insurers to step up claims processing procedures:

“I think when a person has got a problem it should be paid right on the spot after showing them all the required documents, instead of making follow ups now and then, while at the same time you don’t have a place to sleep. So when you have a problem you just go with all the required documents. Then these payments should be paid on the spot, if not today, then it should be done the next day, instead of pretending to do an investigation for a long time.” (Group 4: compulsory insured women, Dar es Salaam)

*To build trust, perceptions must be changed.* Unfortunately for insurers, even valid claims rejections or documentation requirements may be perceived as unfair by customers and undermine trust. Respondents were frustrated by the need to submit documents such as a medical or death certificate and pointed out that they can often get such documents only

after considerable effort and expense (which, from the discussion, sometimes relates to corruption, with officials charging money for certificates to be issued). This leaves them in a catch-22 situation whereby they cannot claim without money, yet do not have money before they have claimed.

#### 4. What do the demand-side insights mean for industry?

*Real potential demand – and large variety within the unserved market – but value proposition currently insufficient.* The demand-side research suggests that there is a real need for insurance, particularly health insurance, but also life and property insurance, among the currently unserved population. The primary unserved target market would be those who are informally employed and live in rural areas, but there is also still much scope for better serving the needs of “lower-end” workers in the formal sector and to expand their insurance product suite beyond the compulsory NHIF or credit life cover that many of them have. Though affordability is a big concern, many ordinary Tanzanians do have some money to spend and would be willing to prioritise especially health insurance premiums (given the very high out of pocket healthcare expenses that they face), should the products on offer provide a compelling value proposition to them.

*Combination of face to face interaction, aggregator entry points and use of technology needed.* To break into the unserved market, a number of obstacles relating to client perceptions and trust, product design, client service and distribution need to be overcome. There is certainly substantial interest in insurance products, but consumers want to be informed face-to-face about different coverage, options and prices before they make any decisions. Rather than trying to reach people on an individual basis, it would make sense to leverage the wide variety of groups to which many of the respondents belong - e.g. religious groups, SACCOs and VICOBAs – as entry points for education through the sales process.

The mobile phone can assist in overcoming some of the client communication and distribution challenges, but cannot be a substitute for human interaction – at least until positive market discovery has taken place (as discussed in *Document 4*). Once consumers have the information and have made their choices, market research suggests that premiums can be relatively easy to handle electronically thanks to familiarity with and trust in mobile money offerings.

*Appropriate features a prerequisite – but for the most part mass market consumer needs do not yet inform product design.* Furthermore, you cannot expect people to buy insurance if there are no products that speak to the economic realities available to them where they live. The situation is exacerbated by the fact that trust in insurance providers is undermined by poor service delivery and unsuccessful claim stories. Even if related to a specific type of insurance or provider, such stories take on a life of their own in a community and can lead to mistrust of insurance in general.

*Document 5* shows that the industry consultations conducted as part of this study suggest that insurers have thus far not strategically engaged with market research insights into the realities, needs and perceptions of the low-income market in order to inform product and channel design. Instead, the focus has largely been on the commercial sector, corporate employee groups, or compulsory or embedded products on the back of other financial services. Some brokers and other distribution channels seem to be more attuned to

customer realities, but there is still a need for strategic market research to inform strategies for mass market expansion.

*How should industry respond?* In summary, the market research suggests that the task facing the industry is to use institutions that people trust, provide ample, face-to-face information, develop an appropriate product suite that is distributed to people where they live, and create easy payment and claims processes. Respondents indicated that they would value such an approach more than a low-priced product. This verdict is confirmed by the findings in *Documents 4* and *5* on what is needed from a supply and distribution perspective to achieve the next wave of growth.

Combining all of these factors into a feasible outreach strategy however may be easier said than done, especially if, as is currently the case, insurers and intermediary channels do not have a firm grip on who exactly their target market is and what their needs are.

As a first step, it is useful to understand the **size** and **nature** of the opportunity. This can be done by segmenting the population into discreet target market groups and to build an understanding of their features and needs in order to know “what it will take” to reach them. On this basis, industry players can then identify specific opportunities that they want to pursue or pockets of clients that they want to target.

Below we conclude on the total size of the opportunity. Then we use FinScope survey data to segment the target market and conclude on distribution and product opportunities and imperatives.

#### 4.1. How big is the opportunity?

Our estimate of total current usage, as set out in *Document 3* is around 4.6m adults or 19% of the adult population. That means that roughly 81% of adults or just more than 20 million individuals do not have any type of insurance cover at present. But how big is the actual market opportunity?

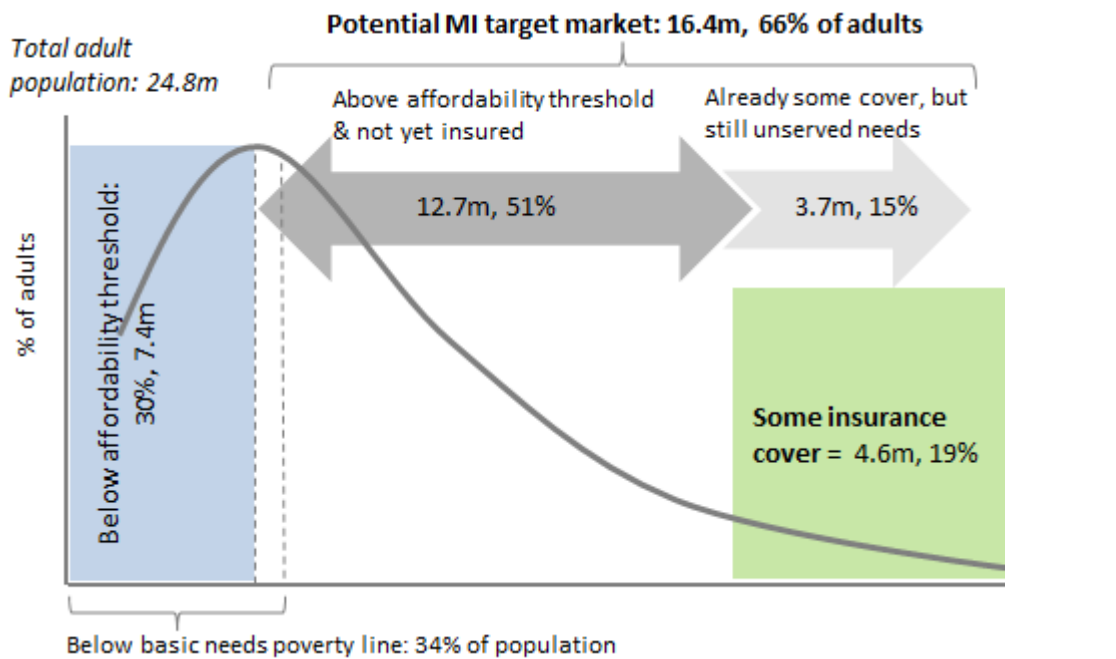
- **Outsiders.** In Box 2 above, we estimated that roughly 30% of adults or 7.4m individuals will fall below the affordability threshold<sup>11</sup>. That is, while there may be isolated pockets of viable insurance clients in this part of the population, should very low-cost products be designed specifically for their needs, most of them are unlikely to be part of the microinsurance target market.
- **Insiders.** Furthermore, while an estimated 19% of adults already have some type of cover, it does not mean that all their risk needs are served and they should automatically be excluded from the target market. Most of them will only have a single health or embedded credit life, funeral or personal accident policy and their insurance needs as outlined in Section 3.1 are likely to still be largely unserved. Thus we assume, for argument’s sake, that another 15% of adults (80% of those who already have some type of insurance cover) will still be part of the microinsurance target market. This amounts to 3.7m individuals.

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<sup>11</sup> This should be regarded as a ballpark figure rather than a hard and fast estimate.

- **Total opportunity.** Deducting the “outsiders” from the currently unserved market would render an opportunity of **51% of adults (12.7m individuals)** who are not yet served in any way, yet could potentially afford microinsurance. Adding the “insiders” to this estimate grows the opportunity to **16.4m individuals (66% of adults)**.

The following figure illustrates the size of the opportunity graphically relative to the total population as plotted against a typical income distribution:



**Figure 4: Total estimated microinsurance market opportunity<sup>12</sup>**

Source: FinScope 2009; usage calculations from various sources as set out in Document 3; affordability threshold calculated based on assumptions set out in Box 2; 2007 Household Budget Survey for poverty figures; 2006 Integrated Labour Force Survey for formally employed figure

## 4.2. Target market segmentation

While it is useful to know the absolute size of the opportunity, it is clear from the analysis above that the Tanzanian population is far from a homogeneous group. For the purpose of assessing actual potential from an insurance distribution point of view, it is therefore useful to divide the population into groups or segments and to better understand the features of each segment so as to inform market strategies going forward. Seeing that those who are currently served by insurance continue to have unmet risk needs, the segmentation exercise is done on the entire population and not just the unserved market.

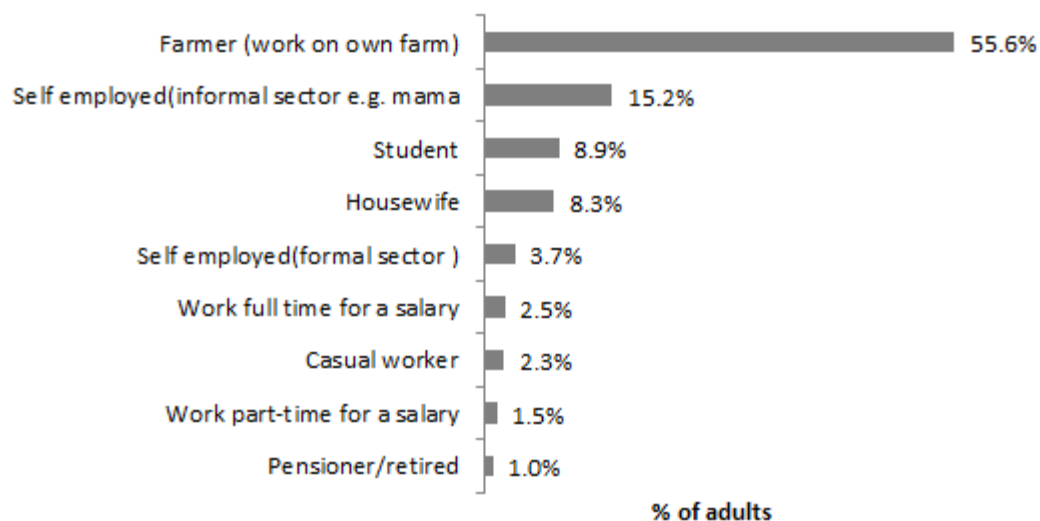
*Segmentation methodology.* The point of departure for the segmentation analysis is to divide the population in terms of how easily they could be reached for insurance distribution purposes. While there are a number of individual traits and social circumstances that could be predictors of market potential (e.g. how risk averse a person is, how well they are

<sup>12</sup> Note that not all figures refer to percentage of adults and some have different base years. Furthermore, not all insured will necessarily be at top end of income spectrum. Sizes and position of blocks should therefore be taken as indicative only.

integrated in a social network, whether they are the breadwinner that has to look after a family), the segmentation lens that we choose relates to the supply and intermediation perspective. Insurers have to “crack the code” to two main distribution challenges: (i) how do you reach the mass market if so many of them live in rural areas and are not formally employed; and (ii) how do you collect payments from them? Another important consideration in who will be a feasible target market is: (iii) the regularity and consistency of their income (on the assumption that, even if they have a low income, they could still be viable clients of low-premium policies designed with the target market in mind).

The following data fields from the FinScope questionnaire help to answer these three questions and hence can be used to create discreet target market segments:

- *Employment status* is used as proxy for consistency of income. We chose this variable over income levels, as income level does not say anything about how variable the income is. Furthermore, income is often misreported in demand-side surveys and, as it was a voluntary question, about 22.4% of the sample did not answer it. Thus the findings regarding income levels are not representative of the adult population as a whole. Figure 5 shows a breakdown of the population by employment status:



**Figure 5: Employment status in Tanzania**

Source: FinScope 2009

- *Banked status* is used as proxy for availability of a formal point of access for insurers – the argument being that those with a bank account and a consistent income would be the first-order priority or “low hanging fruit” from an insurance distribution point of view. Even if people do not have a very consistent income, whether they are banked or not still provides some signal of whether they’re likely to be potential clients. Likewise, those who have a consistent income yet do not have a bank account may not be as easy to reach as those ticking both boxes. As shown in *Document 2*, only 8.8% of the population was banked at the time of the FinScope 2009 survey.
- *Mobile phone ownership*: where insurers do not have the option of the banking channel as a formal point of access, the unbanked population can still be reached through the mobile network and, potentially, pay insurance premiums using mobile phones. According to FinScope 2009, 27.6% of the adult population had their own mobile phones

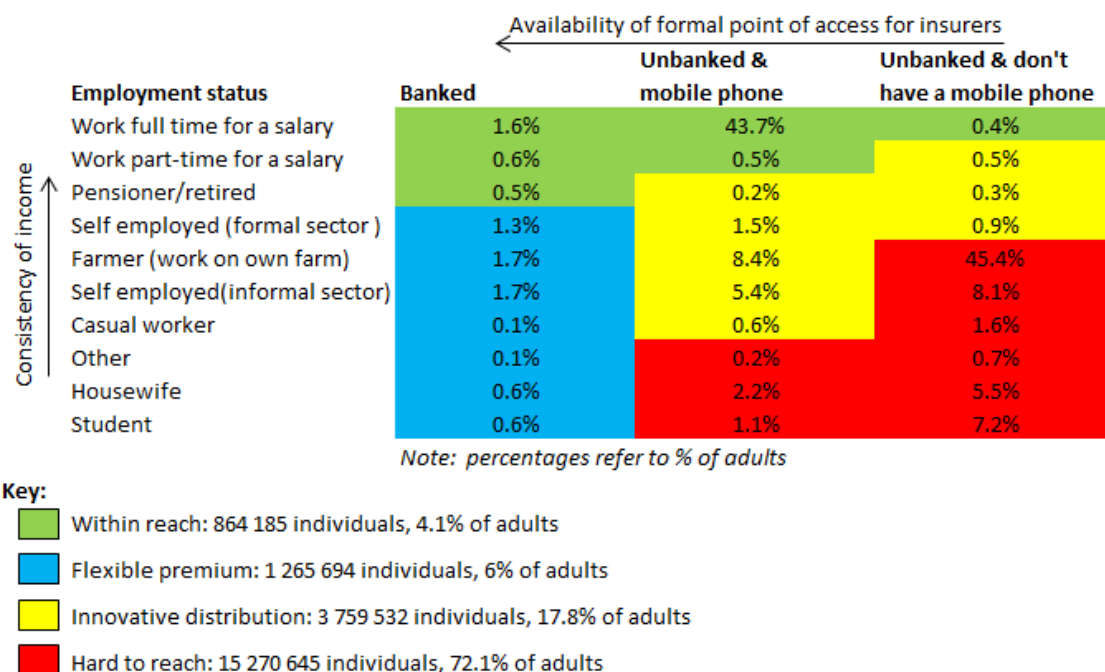


in 2009, while 72.1% had access to a mobile phone. As discussed in *Document 2*, mobile phone penetration has grown significantly since 2009, with about two thirds of adults now owning a mobile phone. However, for the purpose of the segmentation exercise, we use the 2009 dataset. *Document 1* discusses the implications of the changes since 2009 for current market opportunities and imperatives.

While these are by no means the only potential indicators of likely ease of reach, we argue that they are a good starting point. Within each segment, one can then consider additional touch points (e.g. whether a person belongs to a SACCO or some association) that could add to the distribution opportunity in that segment.

*Creating market segments.* For the purpose of the segmentation exercise we use employment status as our main indicator. We therefore start by categorising the population according to employment status, starting with those believed to have the most consistent levels of income, namely those who work full-time for a salary, and then moving down to those with less consistent levels of income (see left-hand side of Figure 6 below). Thereafter, we segment the population according to banked status, and finally the unbanked population is further segmented according to mobile phone ownership. In Figure 6, the availability of formal points of access thus increases as one moves from right (unbanked and without a mobile phone) to left (banked).

*Segmentation findings.* The results of the segmentation exercise can be represented as follows:



**Figure 6: Segmentation by employment status, banked status and mobile phone ownership**

Source: authors, based on FinScope 2009 data. Note: total block denotes total adult population

We identify the following four main groups out of the segmentation exercise:

- **The “within reach”:** 4.1% of the adult population (864,185 individuals). This is the “low-hanging fruit” opportunity. Individuals in this segment earn a relatively consistent level

of income and provide insurers with a formal point of access, either through their bank account or through their employer (with the exception of pensioners). This group's relatively consistent levels of income and formal point of access makes it the easiest group to sell insurance to.

- **The “flexible premium” group:** 6% of the adult population (1,265,694 individuals). The income levels of individuals in this group are less consistent than those in the “within reach” group. Nevertheless, insurers have a formal point of access to them as they are all banked. This group can therefore be a feasible target market if products can be designed to have features suiting their income realities.
- **The “innovative distribution” segment:** 17.8% of the adult population (3,759,532 individuals). Individuals in this group earn relatively inconsistent levels of income (with some exceptions) plus are unbanked, though most do have a mobile phone. Insurers will therefore have to be particularly innovative in the design of distribution strategies and will have to leverage alternative distribution channels through aggregators, should they want to tap into this market.
- **The “hard to reach”.** This group represents the largest part of the Tanzanian population (15,270,645 individuals or 72.1% of adults). They are characterised by inconsistent levels of income as well as limited formal points of access for insurers. This group is 100% unbanked and most did not own a mobile phone in 2009. The majority of those in the group who do own a mobile phone indicated that they mainly depend on friends and family to make a living. Tapping into this group will therefore require out of the box thinking in terms of product design and distribution channel. It is unlikely that the large aggregator opportunities (namely banks, employers and mobile network operators) will help insurers make headway into this market, implying that insurers will have to find distinct pockets of well-capacitated smaller aggregators, should they want to unlock this market.

Note that we could only use FinScope 2009 as the basis for our segmentation exercise. Thus the findings are based on three year old data. There are indications that a number of aspects are likely to have changed since 2009. In *Document 1* we reconcile the findings from our segmentation exercise with more recent estimates of mobile phone usage, insurance coverage and likely trends in banking penetration to take a view on the likely current situation, how the composition of the segments is likely to have evolved and the implications thereof for insurance distribution.

*Profiling the segments.* In order to identify unique opportunities within each group, it is important to get a sense of the socio-economic realities of the people who comprise each segment. Table 1 describes the key features of each group:

	Within reach	Flexible premium	Innovative distribution	Hard to reach
<b>Major age bracket</b>	25 to 34 (24.3%)	35 to 44 (24.7%)	25 to 34 (33.9%)	25 to 34 (27.2%)
<b>Gender</b>	Male (66.8%)	Male (55.6%)	Male (55.6%)	Female (56.4%)
<b>Geography</b>	Urban (60.2%)	Urban (57.8%)	Rural (60.9%)	Rural (79.2%)
<b>Highest education level completed</b>	Secondary (34.8%)	Primary (48.9%)	Primary (70.5%)	Primary (55.4%)
	Tertiary (24.7%)			
<b>Insured</b>	40.2%	28.1%	5.6%	2.8%
<b>Own a mobile phone</b>	81.1%	79.4%	93.5%	7.8% <sup>13</sup>
<b>Access to a mobile</b>	96.2%	96.2%	96.6%	63.0%
<b>Banked</b>	67.7%	100.0%	0.0%	0.0%
<b>Formal credit</b>	35.2%	32.8%	18.6%	15.5%
<b>Informal credit</b>	34.5%	39.0%	46.9%	42.8%

**Table 1: Profiles of the various distribution segments**

*Source: authors, based on FinScope 2009 data*

Below, the profile of each segment is unpacked:

#### **Within reach:**

- Nearly two-thirds of this group is male and about a quarter falls within the 25-34 year age group, making it the single biggest age bracket. This implies that the salaries for this group are expected to grow in the future.
- As one would expect, the majority of this group resides in urban areas (60.2%), is banked (67.7%) and owns a mobile phone (81.1%). In comparison with the other groups, the 'within reach' has the largest proportion of insured individuals. Yet nearly 60% remains uninsured. This represents a significant untapped opportunity for insurance companies.
- Another interesting finding is the correlation between higher levels of education and reachability – 35% of this group completed secondary education and nearly a quarter completed some form of tertiary education, whereas all the other groups mainly consist of individuals who are not educated beyond primary level.

#### **Flexible premium:**

- This group also consists mainly of males (55.6%). The largest age bracket is 35 to 44 years, accounting for 24.7% of the segment. This makes this group the "oldest" of the four groups in terms of its age skews.
- The fact that nearly 30% of the flexible premium group is already covered by insurance confirms that this group is not beyond the reach of insurance providers. However, as mentioned earlier, insurers will have to design products that are in line with the income realities of this group.

<sup>13</sup> As noted above, mobile phone penetration has risen significantly in Tanzania since 2009, the date on which this finding is based

- In terms of distribution opportunities, the bulk of this group lives in urban areas (57.8%), nearly 80% owns a mobile phone, everyone is banked and nearly a third have credit with a formal institution.

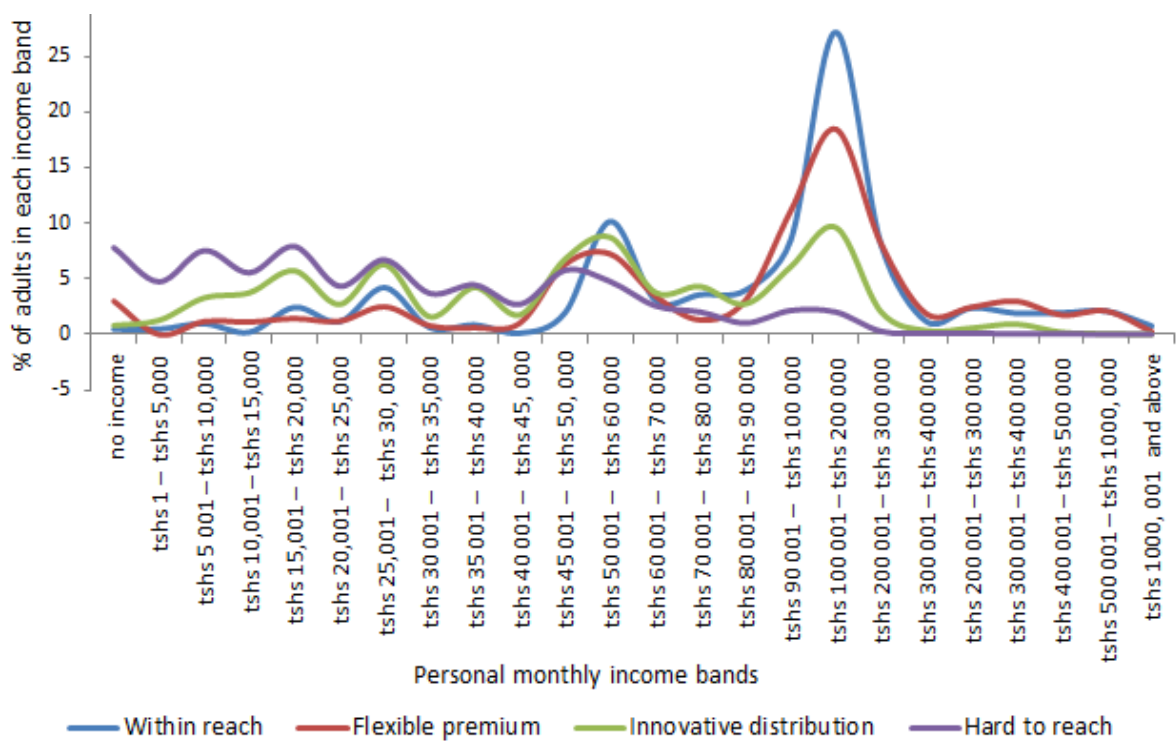
**Innovative distribution:**

- The gender skew of this group, like the two above, is male: 56% are males. An even larger proportion (33.9%) of this group falls within the 25-34 years age band than for the within reach group and more than two thirds of the group does not have more than a primary education.
- The entire innovative distribution group is unbanked. Furthermore, the majority (60.9%) lives in rural areas, which makes it even more difficult to reach them.
- High levels of mobile phone ownership (93.5%) suggest that mobile is likely to be the most viable channel to reach this group and collect premiums from them. The only other likely touch point from the FinScope data would be community-based lenders: 46.9% of the group indicated that they have an informal loan.

**Hard to reach:**

- This group is relatively young with 25 to 34 years being the single largest age bracket. The majority of those that are hard to reach (56.4%) are females and, like the innovative distribution group, most have only a primary education.
- As one would expect, the 'hard to reach' is overwhelmingly rural (79.2%) and completely unbanked. It therefore comes as no surprise that only 2.8% of this group is insured.
- Although only 7.8% owned a mobile phone in 2009, more than 60% of this group can potentially use someone else's phone to pay their monthly premium. A large proportion (42.8%) borrows money from an informal group and can potentially be reached via these institutions.

*Segments reflect income realities.* It is useful to look at the income distributions of the various segments in order to get a sense of the economic realities of each segment.



**Figure 7: Income distributions of the segments<sup>14</sup>**

Source: FinScope 2009

As would be expected, Figure 7 shows that the ‘within reach’ has the highest proportion of people in higher income groups, followed by the ‘flexible premium’ group. In contrast, the ‘innovative distribution’ and the ‘hard to reach’ groups have more people in the very low income bands. The income distribution skew of the ‘hard to reach’ towards the lower income brackets is particularly pronounced. This confirms that affordability is likely to be a severe constraint for this segment.

## 5. Conclusion

*Demand potential not yet realised.* The demand-side research suggests that there is a real potential for microinsurance in Tanzania – not just amongst the unserved population, but also amongst those who already have some form of cover but still have unmet insurance needs. However, qualitative market research suggests that consumers face some serious access barriers from an affordability as well as physical availability point of view, plus that the features of the current product offering do not fulfil all their needs. Even should these supply-side access barriers be overcome, a number of usage or demand-side obstacles such as trust in the industry, client perceptions and financial literacy still need to be overcome in order to break into the untapped market.

<sup>14</sup> In reading the graph, please note that the FinScope survey groups all individuals with a monthly income of more than TZS 1 million (about USD 643) together in one category. Thus all the income bands indicated in this distribution essentially represent a detailed breakdown “inside” the lower to middle income market – what would be the bell part of the traditional bell curve income distribution. Note, also, that there’s an anomaly in the FinScope 2009 dataset whereby the TZS 200-300,000 income bracket is repeated twice towards the right-hand side of the graph. This does not change the overall conclusion from the graph.

*Unlocking opportunities requires out of the box thinking.* The segmentation exercise provides a window into the economic realities and accessibility of the Tanzanian population in order to provide insurers with some tools in their efforts to overcome these barriers. The findings suggest that insurers should regard the unserved members of the ‘within reach’ segment as an easy win opportunity. Second priority should be given to the design and tailoring of products and distribution strategies that would overcome the affordability and accessibility challenges posed by the ‘flexible premium’ and ‘innovative distribution’ segments. Insurers should not disregard the ‘hard to reach’ segment, seeing that it represents the largest part of the Tanzanian population and the demand-side research shows that there is real potential demand for insurance amongst the members of this group. However, they are unlikely to be a first priority before other, “easier” segments are served. As the discussion in *Document 5* shows, the best way to tap into the ‘hard to reach’ market will be to identify specific pockets of opportunity where viable, trusted aggregators can be used to reach them. Even then, product innovation will be required. It is unlikely that “business as usual” will be sufficient to open up the hard to reach market.

*Taking the long view.* *Document 1* takes a strategic view of the implications of the demand-side insights reflected here by reconciling the target market needs and segmentation profile findings with the industry trends that are unpacked in *Documents 4* and *5*. It also takes into account changes in mobile phone usage, banking penetration and insurance usage since 2009 to conclude on market and regulatory imperatives for “cracking the code” to inclusive insurance at scale in Tanzania.