Tanzania Access to Insurance Diagnostic

Headline findings summary and way forward

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About the Tanzania Access to Insurance Diagnostic series

This is *Document 1* in a series of 8 documents that together comprise the findings of the Tanzania Access to Insurance Diagnostic. The series consists of one headline findings summary document 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. *Note that the factual evidence for the findings in Document 1 are contained in the various input documents, to which the reader is referred for further detail on each topic*.
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 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 among Tanzanian adults. 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.fsdt.or.tz and www.finmark.org.za

About the partners

The Tanzania Access to Insurance Diagnostic series is authored by the Centre for Financial Regulation and Inclusion (Cenfri) on behalf of FinMark Trust and is funded as a partnership between Financial Sector Deepening Trust Tanzania (FSDT) and FinMark Trust, with the support of the Tanzania Insurance Regulatory Authority (TIRA).

About the Tanzania Insurance Regulatory Authority (TIRA). TIRA (www.tira.go.tz) is the

independent regulatory authority of the insurance industry of Tanzania. Its mission is to develop and promote an efficient, fair, safe and stable insurance market for all policy holders.

About FinMark Trust. Created with initial funding from the UK's Department for International Development, FinMark Trust (www.finmark.org.za) is an independent trust whose business is controlled by seven trustees from countries in Southern Africa. FinMark Trust's purpose is 'Making financial markets work for the poor, by promoting financial inclusion and regional financial integration' in the SADC region. It does this by conducting research to identify the systemic constraints that prevent financial markets from reaching out to these consumers and by advocating for change on the basis of research findings.

About FSDT Tanzania. Financial Sector Deepening Trust (FSDT) Tanzania (www.fsdt.or.tz) was established by five government donors: Canada, the UK, Sweden, the Netherlands and Denmark, in close collaboration with the Bank of Tanzania and the Government of Tanzania. Its overall objective is greater access for more people to engage with the financial system throughout Tanzania. This objective ties in closely with the Government's Second Generation Financial Sector Reform Programme. The Trust takes a market-making approach to its work. This means dedication to making markets work, especially for the poor. FSDT supports three pillars of financial sector development:

- Expanding the scale and viability of financial institutions and related transactions
- Financial sector infrastructure, especially the crucial task of capacity-building
- The policy, legal and regulatory framework.

About Cenfri. Cenfri (www.cenfri.org) is a non-profit research centre based in Cape Town, South Africa. Cenfri's mission is to support financial sector development and financial inclusion through facilitating better regulation and market provision of financial services. Cenfri manages FinMark Trust's work on retail payment systems and insurance and its involvement in this project is in the latter capacity. Cenfri has to date authored or been involved in an oversight capacity on microinsurance diagnostic studies in 13 countries.

The study applies the methodology of the Access to Insurance Initiative[1].The series has been submitted for review by the Access to Insurance Initiative and, upon acceptance and subject to further refinements, will also be published under its banner.

About the Access to Insurance Initiative. The Access to Insurance Initiative (www.access-to-insurance.org) was created as a partnership between the International Association of Insurance Supervisors (IAIS); the German Federal Ministry for Economic Cooperation and Development (BMZ); CGAP; FinMark Trust; the International Labour Office (ILO); and the United Nations Capital Development Fund (UNCDF). Other major partners include: the Asian Development Bank (ADB), FIRST Initiative, the Making Finance Work for Africa Partnership (MFW4A), the Inter-American Development Bank Multilateral Investment Fund and the Netherlands' Ministry of Foreign Affairs Directorate-General for International Cooperation. The Secretariat is hosted by German International Development (GIZ) on behalf of BMZ.

The Access to Insurance Initiative is a global partnership between insurance supervisors and these sponsors. It aims to strengthen the capacity of policymakers, regulators and supervisors seeking to advance inclusive insurance markets, particularly for low-income clients, by promoting sound, effective and proportionate regulation and supervision. Insurance market diagnostic studies have so far been rolled out in 15 countries world-wide under the Access to Insurance Initiative umbrella.

Acknowledgements

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[1] As contained in Access to Insurance Initiative Toolkit I: Microinsurance Country Diagnostic Studies: Methodology and Analytical framework. Available at: www.access-to-insurance.org.

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List of Abbreviations

AgFiMS	Agricultural Finance Market Scoping survey
AML/CFT	Anti-money laundering/combatting the financing of terrorism
ATM	Automatic Teller Machine
A2ii	Access to Insurance Initiative
CHF/TIKA	Community Health Funds/Tiba kwa Kadi
CISNA	Committee on Insurance, Securities and Non-banking Financial Authorities
FATF	Financial Action Task Force
FSDT	Financial Sector Deepening Trust Tanzania
GIZ	German International Development
IAIS	International Association of Insurance Supervisors
ICPs	Insurance Core Principles
MFI	Microfinance Institution
NHIF	National Health Insurance Fund
NIC	National Insurance Commission (Ghana)
NSSF	National Social Security Fund
SHIB	Social Health Insurance Benefit
NGO	Non-Governmental Organisation
SACCO	Savings and Credit Cooperative
SADC	Southern African Development Community
SMS	Short messaging service
TAMFI	Tanzania Association of Microfinance Institutions
TCRA	Tanzania Communications Regulatory Authority
TIRA	Tanzania Insurance Regulatory Authority

HEADLINE FINDINGS: DOCUMENT 1 SYNOPSIS

This document presents the headline findings of the Tanzania Access to Insurance Diagnostic. It draws on the evidence presented in seven thematic input documents covering the country context, demand, supply and regulatory framework for insurance in Tanzania.

Context

Despite a strong recent macroeconomic growth experience and a stable political environment, the microinsurance market in Tanzania develops against the backdrop of a still largely poor and rural population relying on subsistence agriculture in areas with underdeveloped infrastructure. These factors create a need for insurance to protect the poor against risks, but at the same time create affordability and distribution challenges to insurance expansion.

Market trends

The diagnostic estimates insurance usage in Tanzania to have grown dramatically in recent years from around 6% of adults in 2009 to up to 19% of adults currently. This growth in uptake numbers has been largely on the back of group life insurance, notably life, personal accident and funeral cover embedded in a loan or deposit account with another financial institution. Most recently, insurance cover has also been added as free loyalty benefit to mobile network subscribers.

Outside of these developments, however, voluntary uptake of insurance remains low. Microinsurance innovations have focused on personal accident insurance. With the exception of some pilots in agricultural insurance and a number of private/NGO community-based health insurance schemes, agricultural and health insurance, arguably the most important products in Tanzania given the importance of agriculture and strong expressed need for health insurance in market research, are absent in the low-income end of the market.

The insurance industry at large is still dominated by general insurance, accounting for 90% of total premiums, and most insurers focus largely on the traditional corporate and high-end market. After a strong premium growth spurt in recent years, growth is challenged on a number of fronts, including increased competition between a large number of small insurers, which puts premiums under pressure and creates solvency concerns. Product and distribution innovation is largely driven by intermediaries (with brokers playing a strong role, as well as financial institutions and, increasingly, mobile network operators).

The fact that most clients have compulsory or embedded cover that they did not voluntarily sign up for, coupled with market research evidence of negative claims experiences and dissatisfaction with public health insurance, runs the danger that clients will become disillusioned by insurance, should they not receive value.

The insurance industry in Tanzania is therefore at a tipping point: will it continue to grow its client base at scale, or will growth taper off?

Regulatory framework

The Tanzanian Insurance Regulatory Authority (TIRA) actively supports financial inclusion and the regulatory framework has facilitated the recent industry growth. TIRA is now positioning the regulatory framework for the next wave of growth in three main ways:

- *Discretion applied as inclusion-friendly tool:* the Insurance Act grants broad discretionary powers to the Commissioner, for example to allow general insurers to underwrite

funeral insurance under the miscellaneous category. However, there is some risk that discretion can create uncertainty if rules do not apply consistently across the board, or can lead to an unlevel playing field if specific players are granted a dispensation that others are not.

- *Prudential framework to be scaled up:* TIRA recognises the need to move towards risk-based capital and generally to strengthen prudential requirements so as to ensure the continued sound operation of all insurers and move towards more comprehensive compliance with international standards.
- *Intermediation space to be opened up:* TIRA acknowledges the need to reconsider the intermediation regulatory space in order to facilitate market development. It has drafted microinsurance regulations that propose to lift the traditional broker and agent-only intermediation restriction in favour of dedicated microinsurance agents.

Size of the opportunity

It is estimated that up to 66% of Tanzanian adults (16.4 million individuals) could theoretically afford some insurance cover. Of them, almost 13 million have no insurance cover and the rest, while they already have some cover, will still have unserved insurance needs. This is a substantial untapped market. Demand-side research confirms that the target market faces many risks, currently employs sub-optimal coping strategies and, hence, has a large need for especially health and life insurance. They are furthermore discerning and aware of insurance. However, in order to convert potential into actual demand, insurers would need to gain their trust through affordable products that have features appropriate to their needs and are available to them in their communities.

Imperatives

To unlock these opportunities, the study identifies a number of market and regulatory imperatives. The top-five market imperatives are:

1. *Creating a compelling retail business case*. Most insurers still follow a wait and see approach with regard to retail insurance and only respond to retail underwriting opportunities brought to them by brokers or other distribution partners. To trigger pursuit of microinsurance as a strategic growth area, insurers would first need to buy into the business case for retail business.
2. *Building skills and capacity to trigger microinsurance product innovation*. There is a strong need to build capacity and technical skills in the industry and to progress towards scalable administrative processes. This imperative is not microinsurance-specific, but relates to the entire insurance industry. In the process, microinsurance product and distribution innovation will also be enabled.
3. *Ensuring "positive market discovery" by clients of embedded or compulsory products*. It is important to use the fact that these clients are already in the insurance net as a way to introduce them to the concept of insurance and provide value to them so that they will become voluntary clients also of other types of insurance and become ambassadors for insurance in their communities. If the opposite happens, namely disillusionment and negative word of mouth, this will be a missed opportunity.
4. *Educating customers through the sales process*. The market research findings indicate a need for active sales, involving explanation of product features. Equally important is post-sale service and active client communication. The target market is receptive for such communication to be mobile-based (e.g. SMS) and are ready to adopt mobile

technology to make premium payments and receive claims.

5. *Pursuing strategic distribution partnerships*. To reach into the rural, informally or self-employed market, partnerships with client aggregators with an existing membership or client base that they know and who trust them will be essential.

As TIRA embarks on its regulatory reforms, five imperatives arise for positioning the regulatory framework as facilitator of inclusive insurance market development:

1. *A general review of prudential requirements instead of a separate licence*. Market conditions suggest that there is no need for a dedicated microinsurance licence.
2. *Consider regulatory treatment of community-based health insurance schemes*. Such schemes fulfil an important role at community level. As they grow, the need for regulatory oversight will increase, calling for consideration of the functions fulfilled by such schemes, how the model works and whether it amounts to insurance.
3. *Make distribution options as broad as possible*. The regime should be designed to be as flexible as possible, broadening the space beyond just microinsurance agents. Furthermore, the rise of embedded products implies that there is a particular imperative for ensuring appropriate market conduct.
4. *Use stakeholder process to develop microinsurance product definition*. A conceptual definition of microinsurance is a good starting point, but to delineate microinsurance from other products, a commonly accepted working definition is needed that is in line with market realities, based on qualitative and potentially quantitative product parameters.
5. *More explicitly accommodating low-risk as part of a risk-based anti-money laundering and combatting the financing of terrorism (AML/CFT) regime*. There is a strong rationale, supported by international guidance, for a risk-based approach to AML/CFT. Should microinsurance be classified as low risk, simplified customer due diligence can be applied to it.

The diagnostic represents the beginning rather than the end of the road for microinsurance development in Tanzania. The findings and imperatives are presented as inputs to a stakeholder process, coordinated by TIRA and FSDT, whereby a market development action plan can be devised spanning supply-side, demand-side and regulatory aspects.

1. Introduction

This document presents the headline findings of the *Tanzania Access to Insurance Diagnostic* study. It reflects information current during the in-country consultations at the end of May 2012 and summarises the findings and conclusions from seven thematic input documents.

As summary document, it cannot repeat the full analysis in each of the input documents. The reader is referred to the thematic input documents for a more in depth discussion of each topic as well as the evidence base for the conclusions summarised here.

What is microinsurance? Microinsurance can be defined as *insurance*[2]*accessed by the low-income market*[3]. It is run according to insurance principles and hence excludes social welfare. In a country such as Tanzania, microinsurance is a very broad concept, as the bulk of the population is relatively low-income and currently unserved by insurance. Microinsurance is therefore a mainstream topic that deals with the expansion of the reach of the insurance sector beyond its current client base into the mass market. Wherever we refer to microinsurance in this document series, it should be construed in this broad sense.

What is an insurance diagnostic? An insurance diagnostic is an analytical study that analyses the country context, regulatory framework, demand for and supply of insurance within a country. The analysis depicts the current situation, as well as how the market has developed over time. This enables one to build an understanding of the underlying driving forces of the market stemming from the regulatory framework, the structure of the insurance market, the demand features and the broader financial sector, macroeconomic and socioeconomic context. Armed with this understanding, the diagnostic can identify the barriers to and opportunities for insurance market development, on the basis of which regulatory and market-related recommendations are then made for future development.

Why conduct a diagnostic in Tanzania? The majority of Tanzanians do not yet have access to insurance to protect them against the financial impact of risk events. This creates an imperative to expand access to insurance in line with government's poverty reduction goals. A number of recent movements in the market and regulatory spheres indicate that momentum is building in this regard. A diagnostic fulfils an important role in creating a comprehensive information base on which to base regulatory and market strategies. Thus the rationale for and objective of the study is to unpack the current market situation and trends in the insurance sector more broadly, as well as the underlying driving forces thereof. This it does by considering: (i) the country context, (ii) demand-side needs, (iii) supply-side trends and (iv) regulatory framework, respectively. On this basis, the analysis can then identify the "desired end-state" by estimating the size and nature of the potential market in Tanzania, the opportunities and challenges to unlock the potential, as well as the market and regulatory imperatives for doing so.

Methodology. The standard Access to Insurance Initiative diagnostic methodology was followed, drawing on: desktop research of available market documents and the regulatory

[2] An insurance policy, and thus insurance, is defined as a contract that promises to pay an agreed amount or provide a defined benefit upon the occurrence of an agreed event in exchange for the payment of an agreed premium.

[3] Microinsurance is run in accordance with generally accepted insurance practices (which should include the IAIS Insurance Core Principles). Importantly, this means that the risk insured under a microinsurance policy is managed based on insurance principles and funded by premiums. Source: IAIS and Microinsurance Network Joint Working Group on Microinsurance, 2007. Issues in the Regulation and Supervision of Microinsurance. Available at:www.iaisweb.org.

framework; an analysis of regulatory returns as captured in the Tanzania Insurance Regulatory Authority database; various industry and regulatory consultations (see Appendix 3 for the meeting list); as well as, on the demand-side, an analysis of the FinScope 2009 survey findings and qualitative market research in the form of a series of focus group discussions conducted by Development Pioneer Consultants as input to the project.

Diagnostic scope. The broad conceptual understanding of microinsurance adopted for the purpose of this diagnostic means that the diagnostic assesses the total insurance market in order to better understand the scope for microinsurance. As such, it encompasses any efforts to develop the reach of the insurance market beyond its current top-end and commercial focus, into the retail market and traditionally unserved population, notably the self-employed/informally employed and those in rural areas. In doing so, it includes all potentially relevant insurance products across the long-term and general categories.

The various input document themes have been chosen as follows to cover the four categories of analysis required for any access to insurance diagnostic:

- **Context**: *Document 2* (as summarised in Section 2.1 of the current document) considers the country context.
- **Demand***: Documents 3 and 8* consider two aspects of demand: insurance uptake in the case of *Document 3;* and target market risk experience, coping mechanisms and perceptions of insurance in the case of *Document 8* (summarised here in Section 2.6)*,* which forms the basis for an estimate of (i) the likely total unserved market opportunity and (ii) a segmentation exercise to better understand the nature of the opportunity (summarised here in Section 3).
- **Supply***: Documents 4 and 5* make up the supply-side analysis: *Document 4*, summarised here in Section 2.2, considers trends among insurers, whereas *Document 5* (as summarised in Section 2.3) unpacks the product and distribution landscape and trends.
- **Regulation**: *Document 7* considers the regulatory framework. Its main findings are summarised in Section 2.5.

Document 6 was added to consider the context, demand, supply and regulatory considerations specifically of health insurance, given the unique nature of the health financing landscape and the prominence of health risk needs emerging from the demand-side research. It is summarised here in Section 2.4.

Part of a process. The diagnostic is targeted at all stakeholders in the insurance market – government policymakers and regulators, insurers, distribution channels, development partners and any other party interested in expanding the reach of the insurance market. The diagnostic's ultimate goal is to trigger market change towards increased access to insurance in Tanzania. This it does by creating a common understanding and information base that can form a platform for engagement by stakeholders. As such, the study should be regarded as a tool or input rather than an outcome in itself. It will form the first phase of a broader process whereby stakeholders, under the leadership of the regulator, engage to remove barriers and develop the market towards the desired end-state. This process is considered in Section 4.2.

Point of departure

Low initial uptake. The latest official insurance usage figures in Tanzania stem from the FinScope 2009 survey[4]. Formal insurance usage was estimated at 6.3% of the adult population (1,335,693 individuals) in 2009, while informal insurance usage was nearly 2% (395,248):

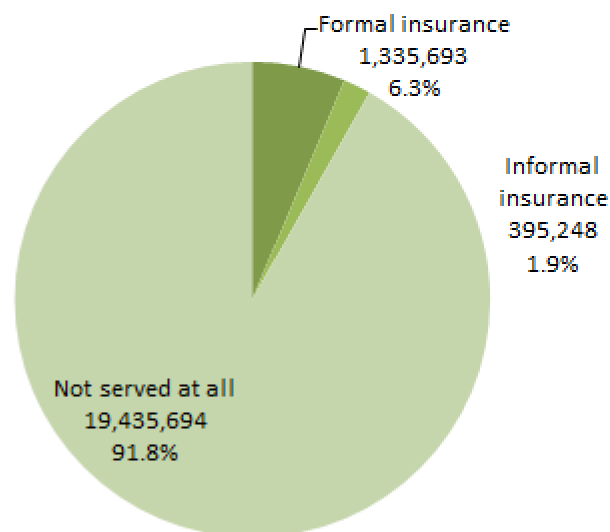

Figure 1: Insurance usage, 2009

Source: FinScope 2009

Of these, the majority (5.6% of adults) had health insurance, including membership of NHIF, Community Health Funds and private health insurance. Only 0.8% of adults had long-term insurance, reducing to only 0.3% with life insurance. General insurance uptake outside of health was equally low: only 0.7% of adults had car insurance and a mere 0.6% other types of general insurance.

Millions more now covered than in 2009. The 2009 usage figures were already up drastically since the previous survey year, 2006, when only 2.8% of adults (about 590,000 individuals) reported having some kind of insurance. This represents 127% growth in people covered over 3 years. Industry consultations suggest that, since 2009, this trend has continued and become even more pronounced.

The diagnostic estimates that **4.6 million individuals or 19% of the adult population**[5] have insurance in 2012. The rapid growth in client numbers has been largely on the back of growth in credit life, the recent phenomenon of embedding life insurance cover on deposit bank accounts, the rise of insurance through the mobile channel and continued growth in the reach of health insurance. In contrast to many other developing countries, the bulk of insurance clients in Tanzania are *microinsurance clients*.

[4] A nationally representative demand-side survey on financial service usage, awareness and perceptions rolled out by Financial Sector Deepening Trust.

[5] Note that, in the absence of hard data, the usage picture is an estimate only, built up from various pieces of available information, and on the basis of a number of assumptions and scenarios. See *Document 3* for a detailed explanation of the data sources, methodology and assumptions used.

Where does the limit to growth lie? Is the growth witnessed in recent years sustainable and does it speak to client needs? Will the dramatic growth trend continue, will it branch out into specific areas, or will it taper off altogether? What challenges further growth? What are the main drivers of growth and how can they be used as strategic levers to steer the course of market development? The rest of the document seeks to answer these questions.

Structure

Section 2 unpacks the themes and recent trends in the insurance market at large and the microinsurance market specifically. This forms the basis for a conclusion on the main drivers of market development. From Section 3 onwards we then take a forward-looking stance, asking what the analysis suggests about the size and nature of the potential market, as well as what the challenges are to be overcome to reap the full potential. Section 4 concludes on the main market and regulatory imperatives stemming from the findings and outlines the role that a coordinated stakeholder process can play in devising and implementing a strategy for microinsurance market development.

2. State of microinsurance in Tanzania

This section summarises the main findings and implications for microinsurance development from the diagnostic study. It starts by considering the country context as backdrop for development (Section 2.1), then considers industry trends (Section 2.2), before unpacking the variety and features of microinsurance products on the market as well as the main distribution channels (Section 2.3). Section 2.4 takes a closer look at the particular dynamics in the health insurance market. In light of the understanding of the market dynamics built through these subsections, Section 2.5 outlines the main features of the regulatory framework within which industry develops. Section 2.6 provides an overview of the target market in order to conclude on whether market and regulatory trends are appropriate to customers' needs.

2.1. A fast-growing, still largely agrarian population as backdrop for microinsurance development[6]

The microinsurance market is intricately linked to the macroeconomic, socio-economic, political economy and financial sector context within which it develops. In recent years, the Tanzanian economy has shown a positive growth record in the real and financial services sectors – all playing off against the backdrop of a stable political landscape. Government is committed to poverty reduction through its MKUKUTA II plan and various other policy initiatives. These are generally conducive conditions for microinsurance market development.

Yet poverty remains high and recent population growth trends suggest that macroeconomic growth at current levels will not be sufficient to improve living standards. The bulk of the population resides in rural areas, where infrastructure is underdeveloped, and is dependent on subsistence farming. The country is still faced with a professional skills deficit, nearly 30%

[6] See Document 2 for a more detailed overview and evidence base for statements made in this section, as well as full source references.

of the government budget is donor-funded[7] and the relatively recent liberalisation of the economy continues to shape trends and dynamics.

The main context findings from *Document 2* are:

KEY CONTEXT DESCRIPTORS

Steady economic growth, but relatively high inflation

- GDP growth has averaged nearly 7% per annum since the turn of the millennium[8]
- Exchange rate depreciation in light of an import-dependent economy has meant that inflation remains high at close to 20%. High and volatile inflation, in turn, induces interest rate volatility

Economic growth unlikely to be enough to absorb expected population boom, reduce poverty

- The 2007 Household Budget Survey shows that one in every three (33.6%) Tanzanians live below the basic needs poverty line
- According to the World Bank, Tanzania's total population is nearly 45 million and is estimated to reach 70 million by 2025. With half the population below the age of 16 years, the economy has to grow rapidly to absorb the productive capacity implied by high population growth.

Agriculture as cornerstone of rural livelihoods

- Despite an urbanisation rate of 4.7% per annum[9], FinScope 2009 shows that nearly three quarters of the population remain rural.
- Agriculture provides a livelihood to about 80% of Tanzanians[10]. Yet there are very few commercial farmers in Tanzania. Rather, agriculture is dominated by subsistence and smallholder farmers cultivating an average farm size of between 0.9 hectares and 3.0 hectares, implying that rural poverty remains pervasive.
- One of the main challenges faced by smallholder farmers and agribusinesses is the lack of finance, as financial institutions continue to consider them as high risk[11].

Underdeveloped rural infrastructure

- According to World Bank (2010) data[12]:
    - Tanzania has on average 63 days/year power outages, versus an average of 41 among all low-income countries and just 5.6 in middle-income countries.
    - Only 10.6% of the population has access to electricity: 39% in urban areas and 1.8% in rural areas. The corresponding averages for low-income countries are 71% (urban) and 12% (rural).

[7] The World Bank. 2012. *Tanzania Economic Update: Stairways to Heaven.* Report prepared by The World Bank Poverty Reduction and Economic Management Unit Africa Region.
[8] The World Bank. 2012. *Ibid*.
[9] Central Intelligence Agency (CIA). 2012. *The World Fact Book.* [Online]. Available: https://www.cia.gov/library/publications/the-world-factbook/geos/tz.html [17 April 2012]
[10] The World Bank. 2011. *Tanzania: Country Brief.* [Online]. Available: http://go.worldbank.org/7SUHE823V0 [7 March 2011].
[11] AgFiMS Tanzania 2011. *Technical Demand Side Report.*
[12] The World Bank, 2010. *Tanzania infrastructure: a continental perspective.*

- Tanzania has a road density of 47km per 100km of land, versus an average of 86km in low-income countries and 507km in middle-income countries.
- Only 7% of the population has access to piped water

Informal economy drives market dynamics

- In line with the dependence on subsistence agriculture, the informal economy and self-employment remains the biggest income generator in Tanzania. Only 5.7% of adults indicated employment in the formal sector as their main source of income in the FinScope 2009 survey

Financial sector footprint still relatively limited

- Branch and ATM infrastructure is still relatively limited at only 0.5 branches and 0.9 ATMs per 1,000km^2 (versus 1.8 and 2.9, respectively, in Kenya and 2 and 2.7, respectively, in Uganda – but noting that population density is much lower in Tanzania than other countries in the region).
- Only 8.8% of adults were banked according to FinScope 2009. This number is likely to have increased since then, but the bulk of the population remains unbanked.
- The Tanzania Association of MFIs (TAMFI) members between them have around 500,000 clients and there is an estimated 5,000 SACCOs

Rapid growth in mobile payment system reach

- 63% of Tanzanian adults or 15.6m individuals currently own a mobile phone[13].
- In October 2010, there were an estimated 1 million mobile money users in Tanzania[14]. July 2012 estimates suggest that this figure has grown to more than 6.4m individuals (26% of adults)[15], a more than 6-fold rise in the span of less than two years.

Implications for microinsurance?

As the findings outlined in the rest of the document will show, these context factors are already– and will continue to be – significant drivers of market development:

- The socio-economic context indicates a stark reality of a largely agrarian rural economy and persistent poverty despite economic gains. This suggests that using insurance as risk management and, hence, poverty reduction tool becomes a public policy objective, not just a market opportunity. For the insurance mechanism to be leveraged as such, it must however be able to reach into rural areas, where underdeveloped infrastructure remains a challenge.
- As financial service, microinsurance development goes hand in hand with broader financial sector trends. The growth in the banked population is therefore heartening and the MFI and SACCO industry can - and already do – serve as microinsurance distribution

[13]InterMedia. Tanzania Mobile Money Tracker Survey: Quarter 2 Report. July 2012. Note that the latest Tanzania Communications Regulatory Authority (TCRA) data show that there are now more than 26 million mobile subscriptions in Tanzania. As one person may have more than one sim card and children may also have sim cards, we adopt the InterMedia figure, which focuses on mobile phone ownership, for the purpose of this study.
[14]http://technology.cgap.org/2010/10/04/count-them%E2%80%A64-mobile-money-services-now-live-in-tanzania/
[15]InterMedia. 2012. *Ibid*.

channels. However, the fact that the bulk of the population remains unbanked, the still limited footprint of the banking sector and capacity constraints in the MFI and SACCO sector all constrain insurance distribution on the back of other financial services.

- In line with international trends, it is logical to look to mobile network operators as an alternative distribution and client communication channel as well as, importantly, a payment system for premium collection and claims payment purposes. The rapid adoption of mobile money among the Tanzanian population is one of the most significant context factors likely to shape microinsurance development going forward.

2.2. The next wave of industry growth: what will the catalyst be?[16]

Post-liberalisation dynamics shape market structure. As is the case in many other African countries, the insurance sector in Tanzania is defined by a history of nationalisation and a state monopoly, followed by liberalisation in the late 1990s. The initial wave of post-liberalisation entry was followed by a second wave since 2008, triggered by expansion strategies by regional insurers, as well as in response to the relative attractiveness of the regulatory framework, particularly capital requirements. The total number of insurers rose from 18 in 2008 to 27 in 2010. Of the 27 insurers, 20 are general, 2 are long-term and 4 are composite – due to split by the end of 2012[17]. There is also one reinsurer, Tan Re. Though the state-owned history and its effect on consumer trust still pervades the market, the new and foreign entry introduced new market dynamics that today shape the direction of microinsurance development.

Small but rapidly growing insurance sector. On the back of these dynamics, the insurance market, though still representing only 1% of GDP[18] in annual premiums, has been growing rapidly. Insurance premiums grew by 24% in 2010, significantly outstripping economic and financial sector growth.

Budding life insurance market. Traditionally, the insurance sector, as is typical in underdeveloped insurance markets, has been dominated by general insurance focused on the corporate sector. It is only recently that the life insurance market has started to develop in earnest and it is now outgrowing the general and total insurance market.

The main findings regarding supply trends emerging from *Document 4* are:

KEY SUPPLY FINDINGS

Strong but slowing growth[19]

Growth off low base in both general and long-term assurance

- The general insurance market has grown rapidly over recent years, with average premium growth of 25% per annum between 2006 and 2010[20]. The growth in long-term assurance premiums has been even more impressive at 33% per annum between 2006 and 2010, though off a significantly lower base. Long-term assurance premiums made up

[16] See *Document 4* for a more detailed overview and the evidence base for the summary findings quoted here.
[17] As per the requirements of the Insurance Act of 2009.
[18] Much lower than the African average of 3.3% and the global average of 7% (Swiss Re, 2010).
[19] Source: TIRA annual insurance market performance reports for 2006 to 2010.
[20] TIRA annual insurance market performance reports for 2006 to 2010.

only 11% of total industry premiums in 2010.

General insurance growth driven by health insurance premiums

- General insurance market can be attributed largely to growth in the health insurance business class, with average premium growth of 36% between 2006 and 2010 and 54% between 2009 and 2010.

Long-term assurance growth driven by embedded group life

- The group life business class has grown at 92% between 2009 and 2010. This exceptional growth has been due to an initial explosion of credit life business embedded in the loans provided by commercial banks, followed by a trend of embedding funeral products in commercial banks' deposit accounts.

Early signs that strong premium growth will slow

- There are indications from both hard data and industry consultations that the high rate of growth is likely to slow in the near future.
- TIRA data and industry consultations indicate a clear trend of increasing competition in the general insurance market, witnessed in new entry, declining market shares for the top five players, as well as increasing claims ratios and commissions. Increasing claims ratios are an indication that premium rates are being cut to ensure business is retained or won over from the incumbent underwriter, while rising commissions suggest that brokers are able to play competing insurers wishing to retain or gain new business off against one another.

Challenges that could prevent further growth

Large number of small companies negatively impacts client value, raises sustainability concerns

- An analysis of the 15 largest general insurance companies shows that the larger the company's market share, the lower its expense ratio. Thus larger companies are better able to provide value for money products.
- The number of general insurers doubled from 2006 to 2010. The average Tanzanian insurer (in terms of gross premium per licence) is significantly smaller than for example in neighbouring Mozambique and Kenya. This raises concerns about the long-term viability of some. The focus group findings in *Document 8* indicate that some consumers have had negative claims experiences that impact on their trust in the industry at large. Should an insurer fail, trust will be further eroded.

Admin systems not yet scalable, high expenses

- Generally high expense ratios in both the general and long-term industries imply that the industry is not yet geared for high administrative efficiency.
- As volumes increase, insurers will need the systems to handle such volumes. Insurers that previously had a few thousand clients are now being faced by bulk adding of tens of thousands of customers through embedded products.
- A number of insurers have only recently begun moving away from manual, paper-based administrative processes to automated electronic administration systems.

- Limited technological infrastructure also constrains efficiency. Branch offices are often not yet connected real-time to head office. This challenges efficient service to clients.

Skills constraints

- A number of insurers interviewed indicated that their ability to grow rapidly was constrained by a lack of insurance skills, ranging from underwriting skills to selling skills.

Implications for microinsurance?

Slowing growth, increasing competition suggests imperative for mass market expansion. Slowing growth should create a competitive imperative for insurers to find new market niches. As insurers attempt to position themselves as leaders in the hitherto untapped mass retail market, significant innovation can be expected.

Yet limited movement to capitalise on mass market opportunity so far. Despite the clear imperative, indications are that few insurers have made this mind shift yet. They still have a largely corporate market, high-value-low-volume focus and look for new growth opportunities in their traditional markets on the back of economic growth and developments in for example the construction, mining and oil and gas sectors. Reasons quoted for not prioritising retail/mass market opportunities include distribution and premium collection challenges in the informally employed and rural market.

Where will the next wave of growth come from? Unless the challenges highlighted above are addressed, there is a risk that microinsurance market growth may stall and even of consumer fall-out. Section 2.3 will show that mass market innovation, where it does take place, is driven largely by brokers, banks and mobile network operators attuned to low-cost distribution at scale. As will be discussed in Section 4.1, this creates a regulatory imperative for supporting skills development. It also creates an imperative for industry to develop underwriting skills and product development capacity, as well as to build a business case for retail business. The current move to automated systems and real-time connectivity between branches and head office is a critical transition and a prerequisite to achieving scale.

2.3. Distribution drives product evolution and market development[21]

The discussion of industry trends above already indicated some product-related findings. Here we take a closer look at the suite of products available in the insurance market in Tanzania and their features. This will be important for our conclusion, from Section0 onwards, on the appropriateness of the current offering to client needs and the opportunities and challenges for microinsurance growth going forward.

The product landscape is intricately linked to the distribution landscape, with a number of particular distribution models coming to the fore in recent years. Indeed, distribution has arguably been the largest driver of product innovation and will continue to be so in the foreseeable future. The second half of this section takes a closer look at distribution trends.

[21] See *Document 5* for a more detailed overview and the evidence base for the summary findings quoted here.

Product landscape

Mostly traditional products. In line with insurers' focus on the upper end and commercial market, most products in the current product landscape are still "traditional" rather than retail or microinsurance[22]. The traditional market is dominated by general business:

- Motor insurance has been the largest class of general insurance business for a number of years, although its significance is reducing. The other main contributors to general insurance premiums are fire and health insurance. Despite the importance of agriculture to the rural economy, agricultural insurance is conspicuous in its absence[23].
- In the long-term insurance market, the group life business class made up 56% of premiums written in 2010. This business class was almost entirely responsible for the long-term industry growth in 2010, accounting for 88% of long-term premium growth.

Despite the dominance of traditional products in the landscape as a whole, the microinsurance product suite is growing. The main findings regarding the variety and features of microinsurance products are:

KEY MICROINSURANCE PRODUCT LANDSCAPE FINDINGS

Most microinsurance products life-related, embedded in another service

- The first microinsurance product to be sold in the Tanzanian market was **credit life**. Our product landscape exercise identified at least six insurers providing credit life in partnership with various banks, MFIs and SACCOs. The product covers the client's outstanding loan balance on death, with typical levels of cover varying widely, depending on the loan amount. Typical premium rates also vary widely from as low as 0.19% of the loan amount up to 1.2%, depending on any additional benefits included in the product. These additional benefits include permanent disability and involuntary loss of employment that pays up to 6 monthly loan instalments. Some products also innovate on the standard credit life offering by adding funeral cover, or by packaging it with property insurance that covers risks such as fire and flooding.
- A more recent phenomenon that has provided significant growth to the long-term assurance market is **funeral products** that are embedded in retail banking products, typically deposit accounts. These products are underwritten mostly by African Life and provide cover of TZS 500,000 to TZS 600,000 for the account holder only or, in some cases, for the account holder and his/her spouse. Two different charging models apply:
    - The cover is provided to account holders for free as long as the account remains active, with the cost of cover being paid by the bank. In such cases banks expect the resultant increased client loyalty to offset the cost of the funeral cover. Alternatively, the bank may pass some or all of the cost on to its clients via its normal banking charges rather than an explicit insurance charge.

[22] Note that, for our product landscape scoping exercise, we have broadly regarded all products that are not targeted at the corporate or high-income market as microinsurance products, as well as those products that are distributed to retail clients via innovative distribution channels (e.g. embedded in the retail savings accounts of banks) and that provide relatively low levels of cover. We have also included all products encountered that are distributed via SACCOs and MFIs since these products clearly target the low-income market.

[23] There is no separate business class for agricultural insurance in TIRA's reporting requirements, which means that any premiums would be reported in the "Other general" class that makes up only 3% of total general insurance premiums in 2010.

- In a second scenario, clients are charged an explicit, typically very low, insurance premium over and above the normal banking charges.

- The other main microinsurance product is **personal accident** insurance. Here the most notable example is the cover provided through mobile network operator Tigo in partnership with general insurer Golden Crescent and MicroEnsure. Tigo Bima is offered for free to Tigo clients, but requires voluntary enrolment to ensure there is increased awareness of the insurance cover. The premium is paid by Tigo with the rationale that the additional benefit will enhance customer loyalty. The insurance covers loss of life of the client and one family member due to accident or illness. The more airtime that is loaded, the higher the cover. The minimum amount of cover is TZS 200,000 with the maximum being TZS 1,000,000. Cover lasts for 30 days and is renewed provided the client has met the minimum spend requirement during the previous month. A client's level of cover, based on their previous month's usage, is communicated to them at the beginning of the month by SMS. Valid claims will be paid within 72 hours of documentation being received. Focus group research (see Section 2.6) indicated that, despite face to face sales, some clients are still confused as to the actual product features. They would also like cover to be extended to children and other family members.

Little evidence of voluntary, paid-for microinsurance products

- Industry interviews identified few voluntary, paid-for microinsurance products that are not embedded in another financial services product. Two examples encountered are:
    - A group life product for bus drivers developed by Jubilee on a request from the Association of Tanzanian Drivers, providing death, disability, funeral and critical illness benefits. There are two cover levels: TZS 7m and TZS 5m, with premiums being TZS 10,000 and TZS 6,400 per month respectively. The programme has now been suspended. Main challenges were the ability to sign up members and collect regular premiums.
    - A personal accident product called Farijika targeted at motorcycle and bajaji (three-wheeled motorcycle taxi) drivers, as well as frequent travellers, developed by the NIC. It provides up to TZS 3m cover for an annual premium of TZS 36,000. Premiums are payable daily, with the NIC intending to use M-PESA as the payment channel. Clients are required to enrol via their mobile telephones using a USSD menu. The NIC provides the policy terms and conditions to the applicant via their mobile phone, which must be accepted before the client can complete his/her application. The physical policy wording is then sent to the client by post once the application has been accepted. As this product was only recently launched, it's too early to gauge its success.

Health and agricultural microinsurance products notably absent

- Section 2.4 will show that health insurance is the product most needed by the low-income market. Yet those insurers that underwrite health business focus on corporate markets and high-income individuals, with no microinsurance offerings to date.

- Despite the importance of agriculture in the livelihoods of most Tanzanians, agricultural insurance products, already limited in the market at large, are virtually absent in the microinsurance market. The only notable exception picked up is a weather index insurance scheme that is being rolled out by MicroEnsure and the Gatsby Foundation,

with underwriting by Golden Crescent. This scheme is still at pilot stage, making it premature to conclude on successes and lessons.

The rise of embedded products raises client awareness and value for money concerns

- The rapid rise in embedded product coverage increases insurance inclusivity. The question, however, is whether it provides enough *client value* and sufficiently creates *client understanding* so as to introduce clients to insurance in such a way that they will be likely to become voluntary clients of other, additional insurance products in future. This is a phenomenon known as positive market discovery. The flipside is the risk that poor client value will lead to negative market discovery*:* disillusioned customers that will not take up other insurance products and will, through the word of mouth effect in the community, discourage others from doing so.
- Low claims ratios witnessed among embedded products suggest both low client awareness and low client value – credit provider rather than client interests often take primacy in product design. Where embedded funeral insurance is concerned, focus group findings (see Document 8) caution that insurers and banks may be trying to artificially create a market for a product with low natural demand in Tanzania. This is unlikely to lead to positive market discovery.

Implications for microinsurance?

Looks may be deceiving. The microinsurance landscape mix set out above reflects mostly embedded products, of two types: (i) products that are compulsory, added to the loan or deposit account; as well as (ii) a voluntary product provided for fee on the back of mobile network subscription. There is no evidence yet of the success of standalone voluntary microinsurance products. The large increase in uptake numbers set out in Section 1 may therefore be deceiving, should the conclusion drawn from it be that the "work has been done" in creating a microinsurance market in Tanzania: the high uptake numbers are not really an indication of spontaneous target market demand yet.

Will embedded products increase demand for insurance? As highlighted above, the current product mix creates the scope for positive market discovery, but only if:

i. clients are **aware** of their cover;
ii. they experience the value of insurance in the event of a **claim** (either first-hand or word of mouth, or via marketing campaigns that focus on the benefits arising from real life claimants); and
iii. the client **value** provided by such products is improved through features designed to be appropriate to target market needs and preferences as set out in Section 2.6.

Should these conditions not be met, embedded products could easily have the opposite effect and become viewed as just another example of insurers exploiting clients to make quick profits, thereby undermining already low levels of client trust in the market. Section 4.1 will consider the strategic market imperatives that this conclusion implies in more detail.

Distribution landscape and trends

Distribution cited as a major challenge, calls for alternative channels. All the industry players consulted highlighted distribution as one of the largest challenges to extending the reach of the retail insurance market in Tanzania, which is critical for the development of microinsurance. The two main distribution challenges are: (i) how to reach people outside of urban centres and the formally employed market; and (ii) how to collect premiums from them. Internationally, these challenges often mean that traditional, door to door, distribution techniques will not suffice in the microinsurance space, leading to innovation in terms of the use of alternative distribution channels. Tanzania is no exception.

Alternative distribution requires viable aggregators. Third party entities such as banks, mobile network operators, MFIs and agricultural cooperatives, to name but a few, can provide insurers with access to new markets and overcome current distribution infrastructure challenges – as there will be an existing footprint and client or membership base that insurance distribution can be added to. Such third parties are referred to as "client aggregators" and distribution through them as "alternative distribution". To be viable, aggregators must be able to provide a sufficiently large client base and existing communication channels to members/clients and must preferably be transacting financially with members to provide an existing premium collection channel. A further critical consideration for insurers when selecting potential aggregators is the level of trust that members have in that entity, as clients will most often associate the insurance product with the brand of the aggregator rather than the insurer.

Document 5 highlights the following distribution trends in the Tanzanian market:

KEY DISTRIBUTION FINDINGS

Most business signed up through brokers

- 62% of all insurance premiums in 2010 were transacted via brokers that negotiate insurance contracts with corporate clients and employee groups. The balance of premiums is distributed either via insurance agents or directly to clients.
- The broker market is dominated by a few large companies: the market share of the top 5 players has consistently remained at around 70% of premiums over the past few years.

Broker participation in retail business remains limited

- The selling of individual life and personal lines general insurance business by brokers is still limited. For example, individual life premiums transacted via brokers was TZS 300m in 2010, representing only 3% of total individual life premiums written and only a few insurers use individual sales agents as major distribution channel. Main challenges cited include navigating legislation that implies an employment relationship with agents and the high turnover of individual agents which, coupled with the need for a Certificate of Proficiency qualification plus substantial in-house training investments, has high cost implications.

Insurance agents are stagnating in a growing market

- The number of active brokers has increased from 46 in 2006 to 74 in 2010. In contrast, the number of active insurance agencies has remained fairly constant between 2006 and

2010 at approximately 220.

Banks are playing an increasing role in insurance distribution – SACCOs and MFIs also some scope, but capacity issues

- The product landscape discussion above showed rapid growth in long-term assurance premiums driven by credit life and embedded funeral products. Both of these products are distributed by banks. This demonstrates the increasing influence that banks are having on the distribution of insurance products.
- MFIs and SACCOs also distribute credit life insurance, but capacity constraints in especially the cooperative sector challenge this channel.

Limited distribution through agricultural value chain

- Distribution through the agricultural value chain (for example processing plants, outgrower schemes, input supplier networks, agricultural lenders and agricultural cooperatives) is still limited in Tanzania. Such aggregators could potentially distribute not just agricultural insurance, but also other types of insurance such as health or life to the smallholder target market. Yet indications are that the agricultural value chain infrastructure in Tanzania is underdeveloped and that, where individual aggregators with enough capacity exist, scale is limited.

Mobile network operators set to become significant players

- There is a strong trend internationally for MNOs to become involved in insurance distribution. MNOs offer a powerful distribution value proposition in that they tend to be large aggregators, control a range of communication channels with clients and have a pervasive existing network of airtime dealers that can be used as distribution footprint. Where MNOs have mobile money offerings, it offers insurers a way to collect premiums and disburse claims, as well as to communicate real-time transaction information.
- As mentioned, the first MNO to enter the distribution market in Tanzania was Tigo. However, other MNOs also have plans in this regard. Furthermore, mobile money platforms such as Vodacom M-PESA and Airtel Money are already used by some insurers to collect premiums. In the Tigo Bima model, voluntary enrolment occurs face-to-face through dedicated agents located in customer branches or mobile agents. There were 150 dedicated Tigo Bima agents as of May 2012.

Broad, but fragmented additional aggregator landscape

- Only isolated examples were encountered of distribution via other aggregators than those mentioned above. One such example is the distribution of a personal accident product to bus drivers via a bus drivers' association. These examples are still new and have not yet reached scale.
- An aggregator landscape scoping exercise in *Document* 5 indicates a broad set of potential aggregators, from small shops or "duka", to petrol stations, to affinity groups, to market associations, NGOs and village banks. However, the aggregator landscape is quite fragmented and there are few easy-win opportunities for distribution at scale through well-capacitated networks of such aggregators. There are also no large supermarket or clothing retailer chains outside of the main urban centres. Rather, insurers would proactively have to look for individual "pockets" of viable aggregators.

Implications for microinsurance?

The analysis shows that distribution is simultaneously the biggest challenge to and the biggest driver of microinsurance in Tanzania:

- For the most part, distribution channels such as brokers, banks and MNOs, rather than insurers and reinsurers, are in the driving seat where distribution and product innovation is concerned. This trend is likely to continue.
- Yet reaching clients in rural areas and outside of the existing client bases of the main alternative distribution channels remains a challenge. The rest of the aggregator landscape is fragmented and unlikely to have strong distribution capacity.
- Not only do clients need to be *reached*, the imperative for positive market discovery implies that they also need to be *convinced* of the value proposition of insurance. As the discussion in Section 2.6 will show, this will require active, face to face interaction with clients, after which electronic communication channels can be used for servicing of policies.
- The rapid rise of mobile money in Tanzania provides an important premium collection opportunity, but does not guarantee that clients will *actually make* premium payments.

These opportunities and challenges create a number of strategic imperatives: in terms of identifying aggregator distribution opportunities, brokering partnerships and getting such partnerships right. These imperatives will be considered in Section 4.1.

The next sub-section pauses on the product and provider landscape as well as unique distribution features of health insurance.

2.4. Health insurance dynamics: finding the public-private balance[24]

Document 6 is dedicated to an overview of health insurance dynamics in Tanzania. We consider health insurance separately because: (i) it is the single biggest insurance category by number of users according to the 2009 FinScope figures; (ii) focus group discussions indicate that it is the most sought after insurance product in Tanzania and (ii) it has a unique set of role players in comparison to other insurance classes. Whereas the two main parties in other classes of insurance are insurers and distribution channels, the health insurance market also includes a service (healthcare) provider as key link in the value chain. In addition, government involvement in healthcare provision, subsidisation and social health insurance are important elements to take into account when building an understanding of health insurance sector dynamics.

The main health insurance-related findings can be summarised as follows:

KEY HEALTH INSURANCE FINDINGS

Health insurance a paramount demand-side need

- As will be discussed further in Section 2.6, health insurance is the single biggest risk need

[24] See Document 6 for a more detailed overview and evidence base.

for the Tanzanian population.

Intricate set of role players in health financing landscape

- The health insurance landscape is comprised of various components:
  - State provision at national and community level through the National Health Insurance Fund (NHIF), the National Social Security Fund (NSSF), Community Health Funds (CHF) and their urban counterparts, *Tiba kwa Kadi* (TIKA)
  - Various private/NGO community-based health insurance schemes that operate outside of the formal insurance market
  - Private health insurance provided by general insurers

National health insurance relatively wide reach, but questions on level and quality of cover

- The NHIF currently covers about 2.5 million individuals (including main members, spouses and children) and has a network of 5,500-plus healthcare service providers.
- A broad benefit package is included, but customers still incur significant out of pocket expenses and, at 23%, claims ratios are low. The fund holds large reserves, likely indicating that administrative issues undermine higher claims ratios. Furthermore, the quality of healthcare services provided to customers is hampered by cumbersome reimbursement procedures and operational challenges in managing the relationship between the fund and the network of healthcare facilities.
- These challenges were strongly confirmed in focus group research, which highlighted substantial user frustrations with the system. Insurer consultations suggest that, as a result, many NHIF customers opt to buy private top-up cover.
- In addition to the NHIF, which is currently compulsory only for public sector employees, the NSSF caters for the private sector on a voluntary basis through the Social Health Insurance Benefit. However, it has limited reach, covering only 9% of NSSF members (31,000 policyholders) and being serviced by a healthcare network of only 264 facilities. The SHIB operates on the basis of a capitation model. In contrast, the NHIF is run according to a fee for service model[25].

Public community health funds cater for mass market, but many challenges

- The NHIF-administered public CHF system and its urban equivalent TIKA were set up in 2009 in an effort to increase the poor’s access to healthcare. Members join on a voluntary basis and pay an annual premium of between Tsh 5,000 and TZS 15,000, which is doubled by a matching grant from the national budget. The system covers around 534,000 members (rising to 3.4m if family members are included).
- The CHF system is fraught with challenges, including a poor provider structure and the fact that members only qualify for treatment at the facility where they are registered. The efficiency of CHFs is furthermore hampered by limited management capacity.

Private community-based schemes serve important role, but not a comprehensive solution

- In addition to the public CHF/TIKA system, there are also numerous private community-

[25] A fee for service model reimburses healthcare providers for actual medical expenses incurred, while a capitation model pays providers a fixed monthly or annual fee based on the number of people in their catchment area or the fund, regardless of actual expenses incurred.

based schemes that aim to provide access to quality healthcare at affordable prices to the informally employed market. They typically provide care on a capitation basis and tend to enrol groups through community aggregators, rather than individuals.

- This type of care is suited primarily to high-frequency, low value outpatient services and limited in-patient needs. It is therefore unlikely to be sufficient of itself to cover households' full medical needs. While it plays an important role in some communities, it does not yet have a widespread reach across the country, with a recent World Bank report estimating such schemes to reach a total of less than 1% of the population. Furthermore, indications are that such schemes are highly dependent on donor funding and therefore unlikely to be viable purely through the market mechanism.

Private health insurers serve largely upper-end market

- The private health insurance market is constituted by general insurers that provide health as a class of policies, of which three do medical insurance only. The total private health insurance client base was estimated in industry consultations to be no more than 200,000 principal members.
- Health insurers serve largely the formally employed sector. According to the 2006 Integrated Labour Force Survey, 1.9 million people are formally employed. Thus there is still a large untapped segment in the traditional target market of health insurers.
- Industry interviews identified significant challenges in the market, largely due to high claims ratios associated with the fee for service model.

Implications for microinsurance?

In summary: the NHIF only serves public sector employees and the reach of the SHIB is very limited. Focus group findings suggest that state-administered community health funds, though covering a large number of people, often fail consumers. The private insurance market currently serves only the formally employed and higher end population. Substantial unserved numbers in this traditional market segment, coupled with the challenges facing industry, suggest that health insurers are unlikely to branch into the microinsurance market anytime soon. This leaves private community-based health insurance as the only viable instrument, to date, for serving the paramount health cover needs of the poor. Yet it also does not manage to reach the bulk of the population yet and is dependent on donor funding to be viable.

For the most part, the substantial health insurance needs of the rural, informally employed market therefore remain unserved. This creates a public policy imperative for finding a solution to the day to day healthcare needs of the poor and rural population, particularly by looking at ways in which the public and private community-based systems can be strengthened. It also challenges the current model on which the private health insurance market operates, giving rise to three main questions:

1. Can the fee for service model be fixed so as to reduce costs and create scope for expanding the client base, if not into the lower income market, then at least deeper into the middle class?

2. Will it be viable for private health insurers to enter the outpatient cover, capitation-based market? Cost-related challenges in the private community health insurance fund market suggest that this is unlikely to be the case.
3. Is there scope for introducing so-called hospital cash plan insurance in Tanzania whereby a claim payment is triggered by a health event such as hospitalisation, but there is no link between the cost of treatment and the sum assured?[26]This would represent "bite-size" health cover, not covering all needs, but at least providing something to tide a family over in the face of healthcare costs.

2.5. The role of policy, regulation and supervision in building an inclusive insurance market[27]

Policy, regulatory and supervisory context

Regulation[28] is the backdrop against which the trends highlighted above pan out. The insurance regulatory framework in Tanzania is contained in the Insurance Act 2009 and its Regulations, as well as the Code of Conduct and Ethics for the Tanzania Insurance Industry inserted as a schedule to the Regulations. In addition, there are a number of areas of regulation outside of the insurance sphere, such as the cooperative societies framework, national payment system regulatory provisions and, notably, the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework of 2006, that are tangentially relevant to insurance market development.

As a relatively young regulator with the primary aim to implement the Insurance Act, TIRA already actively engages with the topic of financial inclusion. TIRA staff appreciate the nature of the trade-offs that exist between ensuring a stable and healthy insurance sector on the one hand, and encouraging innovations that are likely to impact positively on financial inclusion on the other hand. Following on from the diagnostic process, TIRA is looking to take the lead in a stakeholder process to develop and implement a roadmap for microinsurance market development.

The policy landscape more broadly facilitates this approach: the Ministry of Finance and Economic Affairs is the custodian of a number of policy initiatives that promote financial sector reform and development and the Bank of Tanzania has made a formal commitment under the global Maya Declaration to increase financial access in Tanzania.

Regulatory framework in a nutshell

Document 7 contains a detailed analysis as well as section references of the insurance regulatory framework, which consists of the Insurance Act 2009, the regulations issued under it and a Code of Conduct and Ethics for the Tanzania Insurance Industry inserted as a Schedule to the Insurance Regulations. The framework is modern and comprehensive. It

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[26] This model is proving very popular in countries such as South Africa. It removes the healthcare service provider from the chain and operates much like a term life insurance policy, just with a different trigger. However, such a model also introduces its own challenges. See Childs, B. & Erasmus, D., 2012. *Review of the South African Market for Hospital Cash Plan Insurance.* FinMark Trust report Prepared by Lighthouse Actuarial Consulting. Available: http://www.cenfri.org/k2/item/109-review-of-the-south-african-market-for-hospital-cash-plan-insurance

[27] See Document 7 for a more detailed overview and evidence base, as well as specific regulatory section references.

[28] Note: we use the term "regulation" broadly to refer to any legislation or subordinate legislation, as well as any other elements such as guidance contained in the regulatory framework. We also use the term to encompass policy and supervision.

defines two categories of insurance: general (which includes health, accident and asset-related classes) and long-term (defined to include life and annuity, endowments and other classes typically associated with life insurance). Only entities incorporated under the Companies Act or another law may register as insurers, but benefit and friendly societies offering benefits below TZS 10 million (just under USD 6,500) are excluded from the ambit of the Act.

The 2009 framework introduced a licence demarcation between the two categories, requiring existing composite insurers to split within three years (with a further two years' extension possible upon application). However, the Insurance Act allows some product bundling flexibility across the demarcation lines: as long as a policy's primary cover is of one category, insurers are allowed to add supplementary cover ("riders") from another category. Funeral insurance is included under the long-term category, but in practice TIRA also allows general insurers, upon application, to write it under the miscellaneous category in general insurance.

The intermediation framework allows for brokers and agents (either corporate or individual). Whereas brokers must be licensed by TIRA and meet certain prudential requirements, agents are governed largely by an agency agreement between each agent and the insurer, with the insurer submitting agent details to TIRA. Each registered agent may enter into one agency agreement with a general and one with a long-term insurer. Those that have been registered for more than three years may enter into one additional agency agreement. Agent employees and broker's agents may sell insurance without outright registration as long as the agent or broker remains accountable for their actions.

The prudential framework follows a formula-based approach to solvency and valuation of liabilities, with exact methodology left to actuary discretion in the case of long-term insurers. Long-term companies must undergo an actuarial valuation of each fund every two years, as must general companies that account for 15% or more market share. Compulsory reinsurance cessions apply, but are to be phased out. At around USD 1 million currently, paid-up share capital requirements included as part of registration requirements have facilitated the entry of a number of smaller insurers in recent years. TIRA plans to phase up paid-up share capital significantly, as well as to introduce a risk-based capital environment.

Microinsurance regulatory plans

In recognition of the need to facilitate an inclusive insurance market, TIRA is developing microinsurance regulations. An early draft of the regulations communicates TIRA's intention to focus the intermediation space for microinsurance, through the creation of a microinsurance agent category, rather than to allow for a separate prudential tier in the form of a dedicated microinsurance licence.

The draft regulations define microinsurance conceptually as products accessed by the low-income population. Low-income households, in turn, are defined as those working in the informal sector. The definition thus explicitly excludes formal employees, but imposes no income cut-off. No specific product parameters are set apart from specifying that microinsurance products will be classified as either life or general, not both. All microinsurance products must be submitted to TIRA for approval. Thus whether a product qualifies as microinsurance will be decided on a case-by-case basis.

Only microinsurance agents may distribute microinsurance. The category is broadly defined as any individual, company, NGO, Self-Help Group or MFI appointed by an insurer to act as microinsurance agent for distribution of microinsurance products. Microinsurance agents are to be registered subject to having either a National Secondary Education Certificate or a Certificate of Proficiency in Insurance and an agent must indicate upon application which type of microinsurance it will distribute. They must then enter into an agreement with an insurer that clearly specifies the terms and conditions, as well as their duties and responsibilities. It is not specified whether the number of insurers per agent is limited, which would imply that it is open-ended.

The main conclusions from the regulatory analysis are:

KEY REGULATORY FINDINGS

Regulatory framework facilitative of market growth thus far

- The regulatory framework does not create any absolute barriers: though insurance provision is in practice limited to companies, this has not been a barrier, as there have not been any cooperative licence candidates so far; prudential requirements are not set at a prohibitive level and have, in fact, encouraged new entry; and intermediation requirements are broad enough so that a range of entities could register as corporate agents. As such, the framework has generally facilitated the growth trends that have seen the rise of embedded and mobile network operator-intermediated microinsurance.

Positioning the framework for the next wave of growth

Regulatory discretion applied as inclusion-friendly tool

- The Act grants broad discretionary powers to the Commissioner[29]. This has indirectly facilitated microinsurance development by allowing general insurers to underwrite funeral insurance under the miscellaneous category or by allowing foreign investment upon application. However, there is some risk that discretion can create uncertainty if rules do not apply consistently across the board, or an unlevel playing field if specific players are granted a dispensation or permission that others are not. Part of the rationale for the move towards a microinsurance regulatory framework is the creation of clear and simple rules applicable across the board.

Prudential framework to be scaled up

- The prudential regulatory framework is generally adequate when considered against standard actuarial practice. However, the regulator recognises the need to move towards risk-based capital and generally to strengthen entry requirements and solvency so as to ensure the continued sound operation of all insurers and move towards more comprehensive compliance with the new (2011) IAIS Insurance Core Principles (ICPs). It will be important to do so in a proportionate way, cognisant of microinsurance market realities. The post-diagnostic stakeholder process as discussed in Section 4.2 will be important to ensure such an outcome.

[29] For example: the Commissioner may grant specific exemptions to the requirement of Section 18 for separation of insurance and brokerage, may under Section 28 impose terms and conditions on a licence and may under Section 44 allow an insurer upon application to invest abroad

Intermediation space to be opened up

- TIRA has proactively acknowledged the need to reconsider the intermediation regulatory space in order to facilitate microinsurance market development[30]. The draft microinsurance regulations propose to lift the traditional broker and agent-only intermediation restriction in favour of dedicated microinsurance agents. By limiting microinsurance distribution to microinsurance agents, the risk is however that the current broker and agent industry, which already plays an important role in microinsurance-relevant innovation and market making, will be disenfranchised. Unless a new approach to microinsurance agent qualifications is taken[31], the challenge in the existing framework relating to agent qualification (see the analysis in Document 7) may also be perpetuated.

Defining an approach to formalisation

- The supply-side analysis did not identify significant levels of informal risk-carrying, but some MFIs do provide in-house credit life cover outside of the insurance regulatory net. Furthermore, as highlighted in Section 2.4, private community-based health funds play a potentially important role in risk management for the low-income market. Yet they are completely unregulated under the argument that they do not provide "insurance". These activities require TIRA to engage on the questions of who to include to ensure a level playing field and adequate consumer protection, on what basis to do so and what enforcement strategy to implement.

Relevant aspects of ancillary regulatory framework

Microfinance framework to be reviewed

- The Bank of Tanzania is currently reviewing the National Microfinance Policy of 2000. The absence of a comprehensive microfinance regulatory framework challenges the ability of MFIs to act as effective microinsurance distribution channels. The same goes for SACCOs. Though there is a strong cooperatives regulatory framework on paper, enforcement challenges and capacity gaps persist in practice.

Insurance skills flagged as challenge

- The regulatory framework emphasises the use of local human resources. A dearth of insurance-specific skills is one of the main challenges facing the industry. This highlights the need for capacity building and training of staff at the industry level, as well as strengthening of insurance training facilities such as the Institute for Finance Management.

Absence of electronic commerce framework could become problematic

- Electronic enrolment of new clients has the potential to reduce cost significantly. As of yet, there is no comprehensive e-commerce legislation in Tanzania. This has not prevented innovative mobile-distributed and other models from being launched. However, with a few exceptions, the industry norm is still for customers to sign up in person, with a hard copy of the identity document taken. Usually, this practice is driven by whether the insurer is happy to take the risk of not having a legal contract in the event it is challenged in a court of law.

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[30] Other countries that have created an intermediation space for microinsurance in regulation include Peru, Mexico, India, the 14 CIMA countries and the Philippines. Proposed regulation in Ghana, Zambia, Swaziland, South Africa, to name but a few, will also cover intermediation.

[31] See *Document 7* for an overview of alternative microinsurance agent requirement approaches adopted in other counties and the challenges in this regard.

The absence of electronic contracting law is not a barrier in Tanzania yet. However, it is inevitable, especially with the entry of mobile network operators as distribution channels, that electronic contracting becomes more pervasive. If this is the case, it will be important to introduce regulation to safeguard the electronic contracting process (for example through encryption standards). Though electronic contracting is outside of TIRA's jurisdiction and face to face origination also relates to AML/CFT requirements (see below), the microinsurance framework can take a stance on the desirability of electronic contracting and the need for coordination in this regard.

AML/CFT guidelines may pose barrier

- The same holds for anti-money laundering and combating the financing of terrorism (AML/CFT) regulation. Some in the market perceive the customer due diligence (CDD) requirements to push up transaction cost, thereby impacting on the viability of microinsurance.

Implications for microinsurance?

The findings highlighted above suggest that the insurance regulatory framework is generally facilitative of market development. The overarching framework has some indirect rather than direct implications for microinsurance development and few areas may create inadvertent access barriers. A general review of regulatory provisions in line with a proportionate application of the ICPs will indirectly benefit inclusive insurance development. The draft microinsurance regulations are an important first step towards an explicitly inclusion-friendly framework, but care should be taken not to define it too narrowly. For example, if microinsurance intermediation is limited to microinsurance agents and excludes traditional brokers, agents and banks, large-scale distribution opportunities will be lost. Furthermore, if microinsurance is strictly defined as long-term or general, with no scope for bundling of features, it would mean that the product bundling flexibility that applies in practice (with general insurers being allowed to write funeral insurance upon application, for example) falls away for microinsurance. As discussed in *Document 7*, this may not be desirable from a market development point of view.

Section 4.1 will highlight the regulatory imperatives that arise from the diagnostic. The stakeholder process as outlined in Section 4.2 can then be used to generate further proposals.

2.6. Understanding client needs[32]

Building an understanding of consumer needs is essential as prelude to the rest of the document (Sections 0 and 4), which will draw together the supply trends, product evolution and distribution landscape, as well as the main implications of the regulatory framework in order to reach a conclusion on the size and nature of the opportunity for reaching the currently unserved market, as well as the challenges to be overcome and the market and regulatory imperatives to do so. Any products, distribution models or related regulatory elements not attuned to client realities and needs will simply not achieve uptake in the market. Client relevance and appropriateness is therefore the "ultimate test" for the

[32] See Document 8 for a more detailed overview and evidence base.

stakeholder strategy or action plan for which the imperatives and next steps are outlined in Section 4.

Document 8 highlights the insights on customer needs, perceptions and behaviour gleaned from a series of focus group discussions commissioned as input to the diagnostic[33], as well as the FinScope 2009 survey. Here, we summarise the salient demand-side insights emerging from the analysis:

KEY DEMAND-SIDE FINDINGS

Poor, rural population implies limited affordability

- A recurring theme across the 20 focus groups conducted is the fact that people need to proactively budget to make ends meet. Risky events place financial stress on the household, forcing them to cope with the resultant expenses in a number of ways. At the same time, it will be difficult to make room in the household budget for insurance unless it has a clear value proposition for them.

Drivers of potential demand:

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 population (93.4%) indicated that they are concerned about having to be admitted to hospital for medical care. The focus group discussions confirm the severe impact of medical expenses on the family budget. After health expenses, death is the second most common risk and death of a breadwinner will have serious financial consequences for the household. However, funerals tend not to be very expensive or elaborate affairs.

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 on agriculture. This survey finding was confirmed in the focus group discussions. There is also increasing concern about theft of household goods. Though fire did not rank among the top risks, some focus group respondents, especially in urban areas, highlighted the potential financial consequences of a fire in the community.

Current coping strategies undermine financial progress

- According to FinScope findings, more than half the population (52.7%) would rely on loans from friends and family to cope with expenses due to an unexpected event; 31.8% would use their savings and 26.9% would sell their crop or livestock. Focus group findings confirm the need to "make a plan" through various coping strategies. People also often combine one or more strategy. For example: if family and community contributions are not enough, they would deplete savings, borrow money and, if even that is not sufficient, sell assets. Corresponding to the low priority assigned to funeral expenses, no significant informal burial society risk pooling was found at community level. More common is turning to a VICOBA[34] or SACCO for loans or support.
- These coping strategies may not be sufficient or may prevent households from building assets and breaking the poverty cycle.

[33] The full focus group findings are contained in a separate document: Development Pioneer Consultants, 2012. *A demand for insurance in Tanzania? Views of insured and non-insured in the low-income market*. Available at: www.fsdt.or.tz

[34] Village cooperative bank, also known as Village Savings and Loan Associations.

Latent demand for health and life insurance

- The combination of risks faced and suboptimal coping strategies suggest potential demand for life and especially health insurance. This is confirmed by the FinScope findings: 93% of those who said that they would like to have an insurance policy indicated that they would consider taking out health insurance, while 77% 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 currently even consider insurance as an option to smooth financial shocks resulting from risk events. 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 (all less than 1%).

What stands between actual and potential demand?

Access as well as usage barriers[35]

- The majority (60%) of the uninsured population indicated that they do not have insurance because they cannot afford it; 24% do not know how insurance works; 18% do not know how to find out where to buy it and 14% do not 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 in line with the realities of the target market.
- Focus group research confirms that affordability is the largest access barrier, but physical accessibility of products would be a hurdle even if affordability was not an issue.
- Though awareness was generally high, it was clear that awareness does not equate to understanding. There was much confusion on actual product details, terms and conditions.
- Perceptions of insurance are shaped by people's own or their peers' isolated, product-specific experiences and tended to be quite negative. The word of mouth effect of disillusionments with especially public health insurance therefore tarnishes the reputation of the insurance sector and undermines trust.
- Respondents were quite clear that face to face engagement is needed to overcome the lack of understanding and earn their trust. They were open to the idea of mobile/SMS communication from insurers and using mobile money to make premium payments, but only after they were convinced through face to face interaction to sign up.

Implications for microinsurance?

In summary: ordinary Tanzanians face many risks with potential financial consequences, but attach by far the most importance to health-related risks. Their current coping strategies are more often than not insufficient to cope with healthcare expenses. This suggests a definite potential demand for insurance and, indeed, many of them are aware of insurance and its possible benefits. However, detailed understanding is lacking and misperceptions abound.

[35] Access barriers refer to objective factors that exclude an individual in an absolute sense, even if they want to have insurance. Usage barriers are subjective factors such as knowledge, perceptions or trust that mean that a person chooses not to have insurance even if they technically have access to it.

They also do not feel that insurance is available to them in their communities. Where insurance is available, it is mostly limited to a particular product and experience with that one product then shapes people's perceptions and understanding of insurance more broadly. A striking finding from the focus groups is that the target market is quite discerning: they want to be convinced of a strong value proposition and appropriate/relevant product features that cover them as well as their family members before committing to actual willingness to pay for insurance.

How should industry respond? The market research suggests that the task facing industry is to use institutions that people trust as distribution channels, provide ample, face-to-face information, develop an appropriate product suite that is distributed to people where they live, and entails easy payment and claims processes. Respondents indicated that they would value such an approach more than a low-priced product. To build trust, insurers must furthermore overcome the negative perceptions arising from poor service and claims experiences with some products that people have heard of, and improve claims service. Yet mass market consumer needs do for the most part not yet inform product design and distribution strategies. This verdict is confirmed by the findings in Sections 2.2 and 2.3 on what is needed to achieve the next wave of growth.

Combining all of these factors into a feasible outreach strategy 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. Section 3.2 will take a more strategic view on target market segmentation.

2.7. Regional perspectives

In closing this section, it is useful to compare the Tanzanian situation – market and regulation-wise – to other countries in the region. Microinsurance diagnostic studies following the same methodology have been conducted in seven other countries in Southern and Eastern Africa: South Africa (2008), Uganda (2008), Ethiopia (2008), Zambia (2009), Kenya (2010), Swaziland (2011) and Mozambique (2012).

Relatively high usage in Tanzania. The latest available official usage statistics in Tanzania compares relatively favourably to the latest available data for selected African countries:

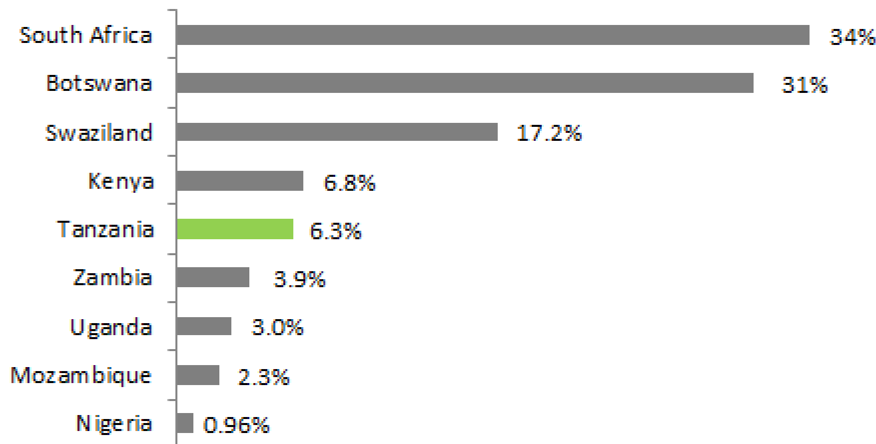

Figure 2. Percentage of adults with formal cover in Tanzania in regional perspective[36]

Source: FinScope Tanzania (2009); FinScope South Africa (2011) press release; FinAccess (2009) as contained in Smith, Smit et al (2010); FinScope Zambia (2009); FinScope Uganda (2009); FinScope Mozambique (2009); FinScope Botswana Headline Statistics (2009); EFInA Nigeria Access to Finance Survey (2010) as contained in De Vos & Hougaard (2011); FinScope Swaziland (2011)

Should the 2012 usage estimate, namely 19% of adults, prove correct, it would imply that Tanzania moves up even further in the usage ranking. However, it should be noted that usage may similarly have increased in some of the other countries since the last available survey data.

Regional microinsurance trends. Appendix 2 provides a comparative summary of the key context, demand-side, supply and regulatory findings of each diagnostic, as well as the main recommendations. Most of the countries are showing strong economic growth, but are still plagued by poverty and infrastructure constraints, especially in rural areas, which challenge distribution. Though each country faces its own challenges and opportunities, a cross-cutting regional picture nevertheless emerges of small, but growing, insurance sectors still often characterised by paper-based systems and traditionally dominated by general insurance, indicating the underdevelopment of the retail insurance market. The two most notable outliers are: (i) South Africa, which has one of the highest premium to GDP ratios in the world and a large and innovative commercial insurance sector, in addition to a vast number of informal burial societies catering for the high cultural demand for funeral insurance; and (ii) Kenya, where a strong microinsurance innovation track-record has already been built up, possibly on the back of “the sense of the possible” brought home by the immense success of M-Pesa. The Kenyan example speaks to another important regional trend (one where East Africa has been a global leader), namely the impact of the rise of mobile money on microinsurance distribution innovation.

Focus group research in each country highlights a slightly different angle of a largely similar picture: all participants struggle in one way or another to make ends meet and therefore do not take the decision to purchase insurance lightly, especially in light of an often low understanding of insurance and a mistrust of the industry due to bad claims experience, which shapes perceptions more broadly through word of mouth in the community. Many also do not feel that insurance is readily accessible to them. Nevertheless, all are under the

[36] Please note that the data for the various countries is not necessarily from the same year, as the figure draws on the latest available survey data for each country.

impression of the day to day reality of risk and the potential financial consequences thereof. Whereas the risk of funeral expenses rank most highly in some countries (notably South Africa), it has less priority in others, where, for example, the risk of illness and the corresponding expenses is regarded as the biggest risk. The prominence of health risks is perhaps most pronounced in Tanzania. Across the board, people employ a variety of coping mechanisms (though ranking may differ between countries), including drawing on savings, looking to family and the community for contributions or loans, selling of assets or livestock, or taking out credit. With a few notable exceptions (e.g. funeral cover in South Africa), few spontaneously regard insurance as a coping strategy.

Regulatory reform trends. Tanzania is also not alone in pursuing regulatory reform. A recent review of insurance regulatory frameworks in the Southern African Development Community (SADC) shows that many countries are undergoing regulatory reforms to better align with international standards; a number are considering microinsurance as part of the broader review process:

Country	Current date of legislation	Regulatory reform underway?	Microinsurance included?
Angola	2000	No	No
Botswana	2006	Yes	Yes
Lesotho	1976	Yes	Yes
Malawi	2010	No	No
Mauritius	2005	No	No
Mozambique	2011	No	Yes
Namibia	1998	Yes	Yes
South Africa	1998	Yes (for microinsurance only)	Yes
Swaziland	2005	Yes	Yes
Tanzania	2009	Yes	Yes
Zambia	2005 (amendments)	Yes	Yes
Zimbabwe	2004	Yes	Yes

Table 1. Regulatory reforms in the SADC region

Source: statistics gathered by Cenfri as input to CISNA-FinMark Trust study into insurance regulatory harmonisation in the SADC region, 2012

Microinsurance regulatory trends. Those countries that have published proposals for microinsurance regulation focus largely on the intermediation side (opening up the intermediation space beyond traditional brokers or agents) and some, such as Mozambique, Swaziland and South Africa, propose creating a dedicated microinsurance licence. Across the board, countries are grappling with the question of how a proportionate approach to regulation of microinsurance would look in practice and how to define microinsurance as a class of policies as input to such a framework. In this regard, the International Association of Insurance Supervisors (IAIS) Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets (henceforth referred to as the "IAIS Application Paper") adopted in October 2012 provides valuable application guidance.

How does Tanzania compare? In conclusion, then, Tanzania is not alone in the trends witnessed and challenges faced. At the same time, the scale of growth in microinsurance uptake in Tanzania and the prominence of embedded products do set Tanzania apart from experience in many other countries. The imperative for using the rapid uptake so far as an instrument for positive market discovery and avoiding the dangers of negative discovery (as will be discussed in Section 4.1), makes Tanzania a test-case that will be closely watched by the rest of the region. Likewise, as all are facing similar regulatory reform challenges, TIRA and its regional peers can reap synergies from dialogue and exchange on regulatory approaches and how to apply proportionality in practice.

3. Where do we want to be?

Key drivers so far. Section 1 showed how insurance usage in Tanzania has evolved in recent years. Understanding what has driven this growth is essential to defining the strategic goals and course of action for further market development. In Section 2 we unpacked the various context, market and regulatory elements that underlie the explosion in uptake. They can be summarised as:

KEY DRIVERS OF MARKET DEVELOPMENT

- Rural, agriculture-based society, coupled with high poverty, underdeveloped infrastructure, inconsistent incomes and high population growth creates an imperative for microinsurance as risk management tool, but simultaneously constrains the opportunity by imposing affordability and distribution constraints.
- Distribution channels (notably brokers, banks and mobile network operators), rather than insurers, have been the main microinsurance “market makers” so far – in terms of product design as well as the ability to reach scale.
- Strong competition between a large number of relatively small insurers necessitates insurers to find a competitive edge to survive. This creates an imperative for unlocking new market segments. However, due to the many challenges in penetrating the low-income, informally employed market, most insurers prefer to find their niche rather in economic growth areas in the commercial sector.
- Microinsurance uptake growth in Tanzania has largely been on the back of embedded, rather than voluntary products, most of them with a life component.
- Cost challenges as well as the fact that there is still a large untapped opportunity in the formally employed market means that private health insurance is unlikely to branch into the microinsurance sphere anytime soon.
- Distribution and cost challenges mean that agricultural insurance remains a largely untapped market.
- Negative client perceptions and a lack of trust will mean low uptake of voluntary products. Yet these usage factors are most often still trumped by absolute affordability and physical accessibility or availability barriers.
- The regulatory framework has generally facilitated the first wave of growth without being a particular driver thereof. To enable the next wave of growth, the regulator is preparing to step up prudential requirements and create an intermediation space for microinsurance.

End-goal: welfare gains. In moving from understanding the current situation and its driving forces to taking a view on what is needed to develop the microinsurance market in Tanzania, it is important to keep the end-goal in mind. Why would you want to develop the microinsurance market in the first instance? From a market perspective, the rationale is profit maximisation through growth in premiums and reductions in cost (i.e. through scale benefits on the one hand, and efficiency gains on the other hand). From the demand-perspective, the goal is better risk management to cope with the variety of risks faced. From the regulator's perspective, the goal is a sound insurance market that serves a broad client base in an efficient way in line with the objective of market development. All three of these objectives, ultimately, relate to an overarching public policy goal of economic development and poverty reduction. To the extent that households are not able to deal with adverse events through insurance or other risk-coping mechanisms, they ultimately become the responsibility of the state. In short: the end-goal is welfare gains for the population and the economy at large. This is a central government goal as embodied in the MKUKUTA I and II plans. A more inclusive insurance market, by impacting on financial inclusion and financial sector development, can contribute directly to this end-goal.

The various market realities, implications and drivers highlighted in this document all form part of a complex environment where various factors (context, demand-side, supply-side and regulatory in nature) co-determine, in an intertwined way, the end-goal over time. Appendix 1 builds a graphical representation of these inter-linkages. This can be a handy tool for stakeholders wishing to promote inclusive insurance market development, as it enables one to identify the paths and levers for getting to the end-goal, taking into account all the other factors likely to impact every step of the chain.

The discussion below will consider the size of the potential microinsurance market in Tanzania and the challenges or barriers to be overcome to unlock the true potential market. This sets the scene for the conclusion, in Section 4 on the imperatives and process for overcoming the challenges and reaping the opportunities for a more inclusive insurance sector.

3.1. How big is the opportunity?

Our estimate of total current usage, as set out in Section 1, is around 4.6 million 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**. The 2007 Household Budget Survey indicated that 34% of the population survive below the basic needs poverty line. It is therefore likely that not all of the 81% unserved market will be potentially feasible premium-paying customers. In *Document 8*, we conduct a scenario exercise whereby we calculate the percentage of a typical low-income person's monthly income that a typical microinsurance premium would amount to. Based on this exercise, and taking the basic needs poverty figure into account, we deem roughly 30% of adults or 7.4 million individuals to fall below the affordability threshold[37]. This means that, while there may be specific pockets of viable insurance

[37] This should be regarded as a ballpark figure rather than a hard and fast estimate.

clients in this part of the population, should very low-cost products be designed 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 2.6 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 3.7 million individuals.
- **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 **16.4 million 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:

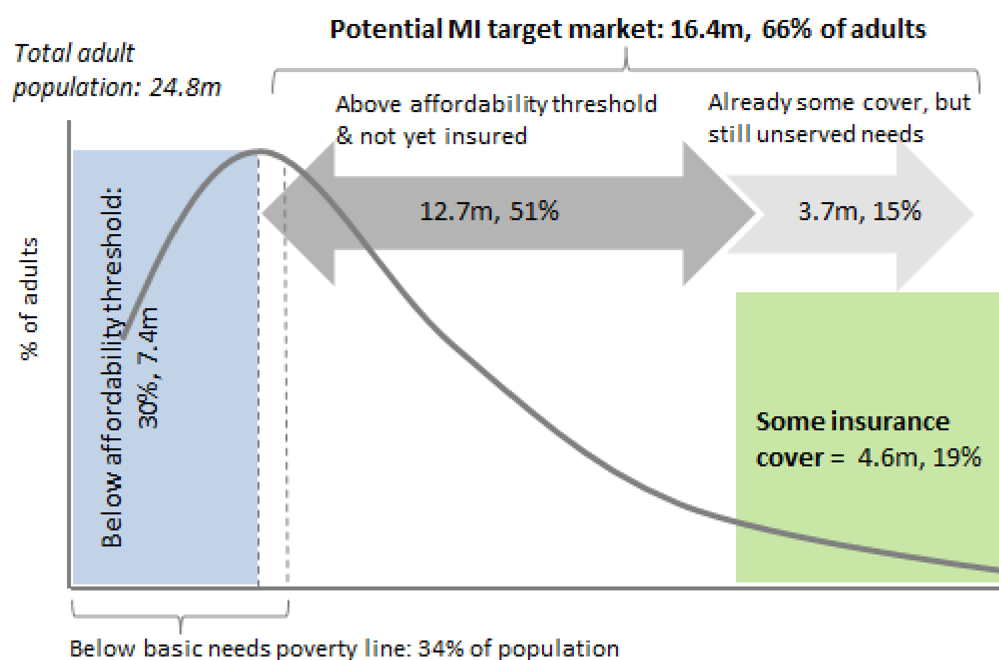

Figure 3. Total estimated microinsurance market opportunity[38]

Source: FinScope 2009; usage calculations from various sources as set out in Document 3; affordability threshold calculated based on assumptions and sources set out in Document 8.

3.2. How to reach the potential market?

Segmenting the population for distribution purposes. What is the profile of those without insurance, or whose full insurance needs are not yet met? *Document 8* uses the FinScope 2009 survey results to do a detailed market segmentation exercise so as to better understand the nature of the untapped market opportunity. It considers consistency of

[38] 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.

income[39], banked status and whether or not people have a mobile phone as proxies for gauging how readily accessible they would be from an insurance distribution perspective. On this basis, the Tanzanian adult population can be broken down into four market segments[40]:

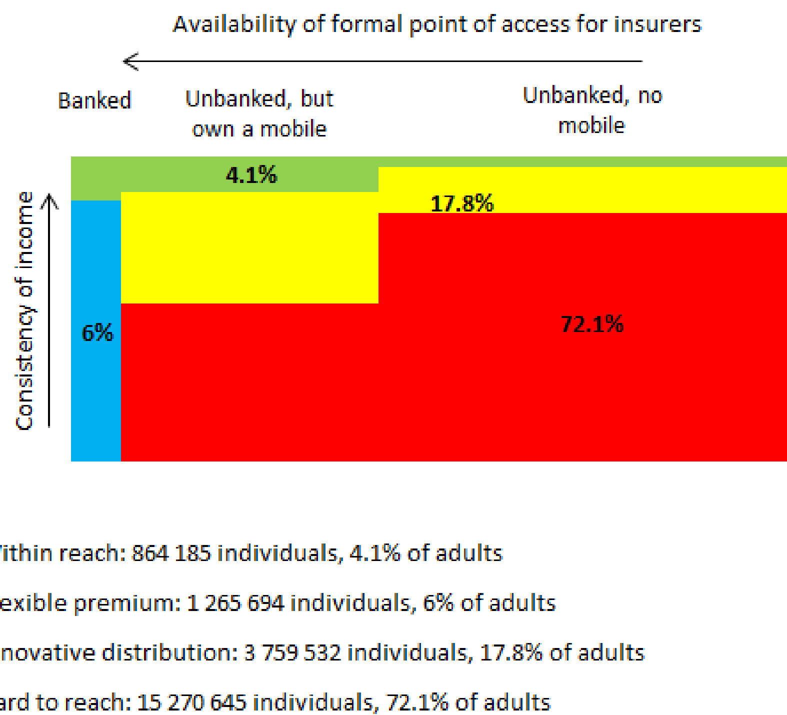

Figure 4. Segmentation of adult population.

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

The diagram groups the total adult population into the following four segments:

- **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. Nearly two thirds of the group is male and 60% reside in urban areas. Unsurprisingly, they are most well educated of all the groups.
- **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 and 80% have a mobile phone. This group can therefore be a feasible target market if products can be designed to have features suiting their income realities. This group also consists mainly of males (55.6%). 58% live in urban areas and nearly a third have credit with a formal institution.
- **The "innovative distribution" segment:** 17.8% of the adult population (3,759,532 individuals). Those in this group earn relatively inconsistent levels of income (with some exceptions) plus are unbanked. 61% of them live in rural areas and 70% only have a

[39] Based on employment status, ranging from the formally employed as most consistent, to those depending on others in the household as most inconsistent

[40] Refer to Document 8 for a full overview of segmentation methodology. Note that, as many of those with some type of cover will also still have unserved insurance needs, the segmentation exercise was performed on the total adult population, rather than just the unserved market.

primary education, making it even more difficult to reach them. 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. 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. Another likely touch point from the FinScope data would be community-based groups: 46.9% of the group indicated that they have an informal loan.

- **The "hard to reach".** This group represents the largest part of the Tanzanian population (15,270,645 individuals or 72.1% of adults). It is the only group of which the majority is female. 79% reside in rural areas. Like the innovative distribution group, they tend to only have a primary education. 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 (noting that, as will be discussed below, mobile phone penetration has risen significantly since then). 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 channels. It is unlikely that the large aggregator opportunities (namely banks, employers and mobile network operators) will help insurers make headway into the hard to reach market, implying that insurers will have to find specific well-capacitated smaller aggregators, should they want to unlock this market. For example: 43% of this group borrows money from an informal group. Thus the potential to use community-based groups as aggregators can be explored.

Layering the distribution segments onto the current total opportunity. From the segmentation exercise above, which is based on 2009 data, we see that, at that stage, an estimated 72% of adults were in the "hard to reach" category from an insurance distribution point of view. That left 28% of the market in either of the other three categories. At that stage, only an estimated 6.3% of adults had some kind of formal insurance cover, implying that there were still significant untapped opportunities in the within reach, flexible premium and innovative distribution segments. Three years down the line, however, we estimate current market reach to have increased to 19% of adults. This could mean that either of two scenarios has happened:

- Since 2009, the insurance market reach has grown into the bulk of the within reach and flexible premium groups, as well as the greater part of the innovative distribution group. This would mean that, with the exception of a few percentage points of adults in the innovative distribution segment, the whole remainder of the unserved market will be hard to reach. The low-hanging fruit in terms of the "easy-win" distribution opportunities have been picked.
- A more likely scenario would be that the segments themselves have evolved since 2009, shifting a significant number of people out of the hard to reach and into the innovative distribution category. This move would be ascribed largely to the significant rise in mobile phone usage since 2009, as well as a likely increase in banked status. It's therefore likely that more people can now feasibly be brought into the insurance net than would have been the case in 2009. Once new FinScope findings are launched, it would be important to repeat the segmentation exercise to confirm this hypothesis[41].

[41] This can be an important activity for the stakeholder group (see discussion in Section 4.2).

Product design and distribution implications. Nevertheless, it is likely that the majority of the currently unserved market will still be relatively hard to reach. What does this mean in terms of opportunities and imperatives going forward?

- As the majority of the *within reach*, *flexible premium* and *innovative distribution* segments is now likely to already have some kind of cover, it creates a strong imperative for ensuring positive market discovery. They are already "in the net", but if their confidence is lost now, it will be very hard to convert them to voluntary customers in future. Furthermore, there is already an established distribution link to them. Insurers and intermediaries have to leverage this existing link to cross-sell other insurance product to these clients – there is still a large opportunity.
- As the bulk of those not yet served are likely to be *hard to reach*, it becomes even more important to think out of the box in how to reach and service them. This makes the role of aggregators all the more important.

Alternative distribution opportunities summary. It is clear from the above that insurers have no choice but to tap into alternative distribution channels, should they want to reach the mass market. That is, they must piggy-back on existing client groupings and the distribution footprint of third parties. The following diagram gives an indicative picture of a few of the most immediate aggregator opportunities overlaid onto the unserved market opportunity set out in Figure 3 above. Note that, in all of the aggregator opportunities discussed, there is a potentially very important role for the broker industry as partnership brokers and product innovators:

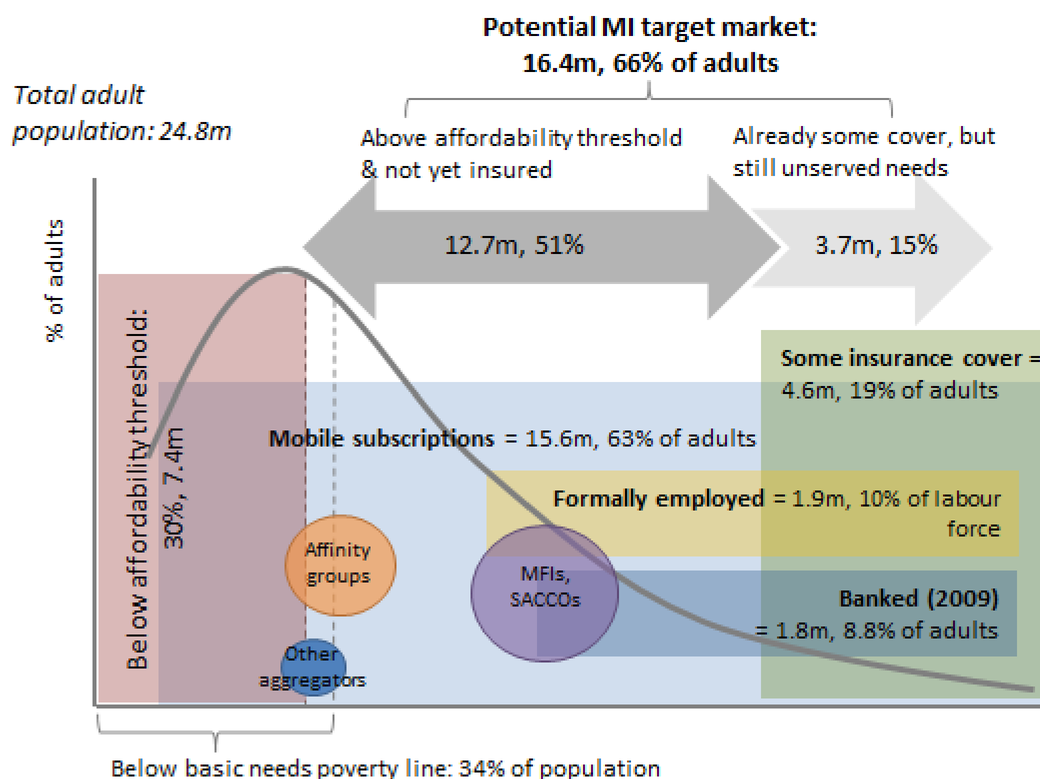

Figure 5. Indicative representation of aggregator distribution opportunities[42]

Source: authors, based on various data sources set out across Diagnostic Documents, .affordability threshold calculated based on assumptions set out in Document 8; 2007 Household Budget Survey for poverty figures; 2006 Integrated Labour Force Survey for formally employed figure. Note: size and placement of aggregator opportunities on the graph are indicative only

The main distribution opportunities are:

- *Banks and employers as low-hanging fruit*. Though most bank customers and formally employed individuals are likely to already have some kind of insurance cover, there are still significant untapped opportunities. For example: as discussed in *Document 6*, the private health insurance market is estimated to reach no more than 200,000 main members. However, there are close to 2 million Tanzanians in the formally employed market. The same goes for cross-selling of voluntary insurance products to those with limited embedded cover in the banking sphere.
- *Mobile networks as market makers.* The MNOs will most probably be the most important aggregators to reckon with in unlocking this opportunity. The context overview in *Document 2* shows that approximately 63% of Tanzanian adults (15.6m individuals) own a mobile phone and that approximately 6.4 million have signed up for mobile money services. Between them, the mobile network operators have tens of thousands of airtime vendors. The FinScope 2009 survey data suggest that 89.3% of the population lives within an hour's walk from an airtime seller. MNOs combine: (i) sheer volume in terms of existing clients with (ii) a distribution footprint unmatched by any other channel, (iii) a client communication channel and (iv) a payment system that can

[42] Note that not all figures refer to percentage of adults and some have different base years. Furthermore, not all insured, formally employed or banked will necessarily be at top end of income spectrum. Sizes and position of blocks should therefore be taken as indicative only.

facilitate premium collection and claims pay-out – a very compelling distribution value proposition indeed.

- *Making the most out of the MFI and SACCO opportunity*. Though no definite estimates are available it is likely that, between them, the MFI and SACCO sector serves more than a million members. Though most SACCOs are likely to be too small and lack the capacity to serve as distribution channels, there are a few bigger ones that present a definite opportunity. Some MFIS and SACCOs have already signed up for insurance cover[43] and a few are likely to carry risk in-house. Insurers should be proactive in signing up MFIs and SACCOs and can make use of brokers to do so.

- *Cooperatives unlikely to be first-order opportunity*. Despite their large reach, the distribution potential of cooperatives is challenged by capacity constraints. Outside of the larger SACCOs, the cooperative sector, notably agricultural cooperatives, would not seem to have much potential for insurance distribution.

- *Healthcare service providers*. Another obvious aggregator specifically in the health insurance space, but also potentially for cross-selling of other products, are the many hospitals and clinics throughout the country. Healthcare facilities are already serving as outlets for NHIF, SHIB and community health funds, though sign-up of clients is through the employer rather than the hospital in the case of the NHIF and the SHIB. The analysis in *Document 6* suggests that hospitals and clinics are fraught with capacity problems and, being focused on healthcare service provision, may not be a viable channel for financial services distribution.

- *Faith-based networks*. A number of faith-based groups have networks across Tanzania, spanning millions of members. Industry consultations suggest that faith-based organisations are not necessarily viable distribution channels due to challenges of premium collection and the fact that the interests of the organisation do not necessarily overlap with that of the insurance partner. Nevertheless, this is an opportunity that can be explored further.

- *Isolated pockets of opportunity among other client aggregators*. Besides the "big win" channels, there is likely to be a host of other potential client aggregators, ranging from NGOs, to retailers and home shops ("duka"), to village committees, to market or traders' associations and other affinity groups, to agricultural processors, storage facilities, produce buyers and other aggregators specific to the agricultural sector.

  To tap into these groups or networks, it will be a prerequisite that they should have a large enough reach to achieve scale, as well as existing communication channels to members or clients and, preferably, existing payment streams/financial transactions to which an insurance premium could be added. The aggregator must also fully "buy into" the rationale for the partnership and have the staff/membership capacity to effectively sell policies and ensure that clients return to pay premiums. Most likely, there will be few easy wins in this category. An aggregator landscape scan conducted as part of this study suggests that many of these opportunities (especially those in the agricultural value chain) may lack scale and be fragmented. Where they do provide sufficient potential scale, it is still not guaranteed that they will have the interest or capacity to distribute insurance.

[43]Notably through the partnership between African Life and CRDB Microfinance.

4. Getting where we want to be

4.1. Imperatives

It is clear from the discussion in Section 3 that there is a large opportunity. However, this opportunity will not become reality through “business as usual”. As highlighted in Section 2, a number of challenges stand between the current market and the potential market, including the traditional mindsets of most insurers, the economic realities, misperceptions and lack of trust of the target market, the dangers of negative market discovery associated with embedded cover and low client value, a product suite that for the largest part does not yet speak to client preferences and needs, as well as the substantial distribution challenges highlighted time and again. Having broken through the pioneer into the breakout stage of market development[44] to more than triple the reach of the market in the past three years, the insurance industry is now at a watershed moment or tipping point:

- On the one hand, there are indications that growth is likely to slow and even some risk of a negative fall-out, should the various challenges not be overcome.
- On the other hand, in light of the significant untapped opportunities still available, there is scope for growth at scale.

The two contrasting future paths can be illustrated as follows:

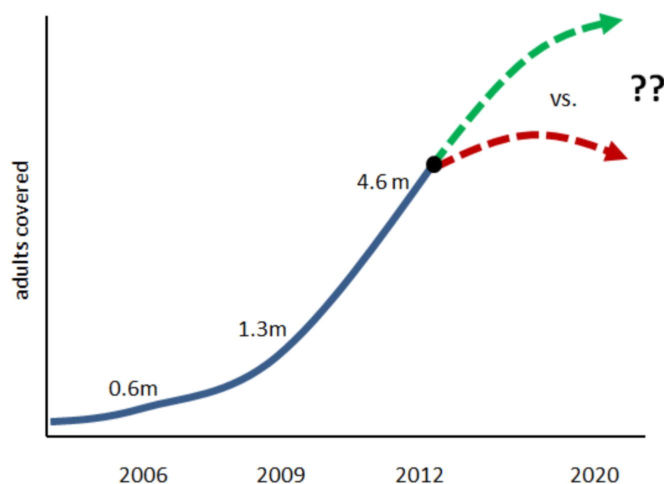

Figure 6. Future growth scenarios

Source: Authors, based on FinScope data and various sources and assumptions set out in Document 3

Securing the green rather than the red scenario gives rise to a number of strategic imperatives. Below, we identify the 10 main imperatives stemming from the analysis, grouped into market and regulatory imperatives, respectively:

Top-5 market imperatives

1. Creating a compelling retail business case. It is clear from the analysis of industry trends in *Document 4*, as summarised in Section 2.2 above, that most insurers still follow a wait and

[44] Refer to the discussion in this regard in Document 3.

see approach with regard to retail insurance and, by implication, microinsurance, or only respond to opportunities brought to them by brokers, banks, mobile network operators or other distribution partners. To trigger pursuit of microinsurance as a strategic growth area, insurers would need to buy into the business case for retail business[45].

2. Building skills and capacity to trigger microinsurance product innovation. Another salient industry finding (Section2.2) is the lack of skilled human resources, the need for product[46] and distribution innovation, as well as the inefficiencies associated with the currently still pervasive tendency for paper-based systems. This finding creates an imperative to build capacity and technical skills and to progress towards scalable administrative processes. This imperative is not microinsurance-specific, but relates to the entire insurance industry. In the process, microinsurance product and distribution innovation will also be enabled.

3. Ensure positive market discovery. The rise of embedded products creates the opportunity for positive market discovery – but also the risk that negative discovery will undermine consumer trust in insurance. The client views on lack of value for money indicated in the focus group discussions are confirmed by current industry trends in expense and claims ratios. There is thus a strong imperative to: (i) ensure client awareness and value in the case of embedded products so as to facilitate positive market discovery; and (ii) improve efficiencies, reach economies of scale and pay more attention to appropriateness of product features and disclosure procedures to improve client value more broadly. This imperative links explicitly to Imperative 2, and also to the regulatory imperative for market conduct regulation (see below).

4. Educate customers through the sales process. The market research findings indicate a need for active sales, involving explanation of product features as a prerequisite for positive market discovery. Equally important is post-sale service and active engagement with clients on premiums due, level of cover and claims procedures. Indications are that the target market is very receptive for post-sale mobile communication (through SMS or phone call) and are ready to adopt mobile technology to make premium payments and receive claims.

5. Pursue strategic distribution partnerships. Much of the current impetus for microinsurance development, including product innovation and scale, already stems from distribution channels (brokers, banks, mobile network operators) rather than insurers. The size of the untapped market opportunity and the nature of the "innovative distribution" and "hard to reach" market segments suggests that distribution innovation will continue to be key in extending market reach alongside product innovation. This creates the imperative for

[45] This is a topic that has attracted increasing attention in recent years and stakeholder. See, for example:

- Angove, J. & Tande, N., 2012. Is microinsurance a profitable business for insurance companies? In: C. Churchill & M Matul (eds), 2012. Protecting the Poor: A Microinsurance Compendium, Volume II. Geneva: ILOL: 368-398.
- A recent study by the Microinsurance Network (Coydon & Molitor, 2011) examined the involvement of the top insurance companies in the world according to the Forbes "The Global 2000 Insurance" list, in microinsurance to understand their incentives and long-term perspectives. Based on the initial desk study, it can be estimated that at least 33 of the 55 targeted companies are involved in microinsurance activities. The fact that so many of the largest insurers in the world are engaging in microinsurance indicates that more and more companies are finding a compelling business case for microinsurance. Available at: http://www.microinsurancenetwork.org/publication/fichier/MiN_Commercial_insurers_study_2011.pdf

Using these and other inputs, the stakeholder process discussed in Section 4.2 will need to convince insurers of the business case for retail insurance more broadly and microinsurance in particular in the Tanzanian context.

[46] For example, by developing "bite-size" health cover policies that deal with very limited risks, but nevertheless provide value to clients, or microlife policies designed to pay education expenses when a breadwinner passes away, to name but two potential products that market research suggest would be valued by clients.

distribution partnerships between insurers and a broad range of potential aggregators.

Top-5 regulatory imperatives

The main regulatory imperatives are explained in detail in *Document 7*. They are:

1. A general review of prudential requirements instead of a separate microinsurance licence. Current market conditions do not suggest any imperative for creating a special prudential tier for microinsurance provision. Rather, there commendation is for a general review of the prudential framework aimed at strengthening the insurance sector at large. The risks of consumer protection concerns in especially embedded products also suggest the need for attention to regulatory monitoring of market trends through reported data relating to microinsurance. Revisions to the framework are best devised in consultation with industry and should seek to meet international standards *cognisant of domestic realities*. The scope for proportionality as contained in parts of the IAIS Insurance Core Principles and elaborated on in the IAIS Application Paper should be the key guide for doing so.

2. Consider regulatory treatment of community-based health insurance schemes. Given the important role of health insurance emerging from the demand-side findings, there is need for explicit protection of consumers in this sphere. The focus group research discussed in Document 6 indicates that private/NGO community health insurance funds fulfil an important role and are appreciated by customers as offering value. As these institutions grow, they will tend to evolve more and more into the insurance sphere, with guaranteed products, instead of just providing prepaid services. This will increase the need for regulatory oversight. Further consideration is thus needed of the functions fulfilled by such schemes, how the model works and whether it amounts to insurance. More broadly, this point speaks to the need to consider the role of private insurance relative to other mechanisms in the health financing space and, hence, the role of TIRA vis-à-vis other regulatory entities. As a first step, more explicit intra-government coordination on the topic is called for.

3. Make microinsurance distribution options as broad and flexible as possible. The proposals in the draft microinsurance regulations for a microinsurance intermediation space are generally encouraging, but care needs to be taken to be as flexible as possible in designing the regime. Particularly, the microinsurance distribution space needs to be broadened beyond just microinsurance agents to include traditional brokers and agents and specifically allow for bank-based distribution. A flexible microinsurance distribution regime that allows a variety of third party aggregators will also strengthen the role of cooperatives as distribution channels[47]. Furthermore, the risk of negative market discovery in the embedded product sphere suggests a particular imperative for ensuring appropriate market conduct as part of the microinsurance regulatory space. In both of these intermediation aspects, the need for proportionate requirements as set out in the IAIS Application Paper should once again be the compass.

4. Develop a product definition of microinsurance. The conceptual definition of microinsurance put forth in the draft microinsurance regulations is a good starting point, but

[47] In line with the recommendation not to pursue a separate prudential tier for microinsurance, there is also no specific rationale to open up the institutional space for insurers to cooperatives or other community-based entities at present. Capacity constraints in the SACCO and cooperative sector as well as the challenges in the enforcement of the institutional regulation of cooperatives suggest that there are unlikely to be ready “takers”, should the institutional space be opened up.

needs to be broadened not to exclude the lower levels of the employed market. As long as there is no prudential tier for microinsurance, there is no need for a specific income or other cut-off in terms of who may qualify as a microinsurance client. However, some way will be needed to delineate microinsurance from other products for intermediation regulation and reporting purposes. This creates an imperative to use the stakeholder process discussed in Section 4.2 below to arrive at a commonly accepted *working definition* of microinsurance in line with market realities, based on a number of qualitative and potentially quantitative definition parameters (see the IAIS Application Paper for guidance in this regard). If such a working definition is adopted, the need for upfront product-by-product approval can be removed from the provisions of the microinsurance regulatory framework, as it creates the scope for an unlevel playing field, plus will push up supervisory costs.

5. Consider more explicitly accommodating low-risk as part of a risk-based AML/CFT regime. The current AML/CFT regime inadvertently reinforces access barriers. There is a strong rationale, supported by international guidance by both the Financial Action Task Force (FATF) and International Association of Insurance Supervisors (IAIS) as international standard-setting bodies, for a risk-based approach to AML/CFT regulatory frameworks. The imperative in Tanzania is to develop a risk-based framework that defines microinsurance as low-risk and applies simplified customer due diligence to it. It should also provide clearer guidance on the scope for electronic record-keeping and non-face-to-face origination of policies. This recommendation lies outside of TIRA's direct jurisdiction, but is an important enough consideration for TIRA to initiate dialogue on the topic with the Ministry of Finance and Economic Affairs and the Financial Intelligence Unit.

4.2. Next steps

In conclusion: this document has outlined the main findings from the Tanzania Access to Insurance Diagnostic. The findings indicate significant progress already, driven largely by distribution innovation and embedded products, as well as a broadly facilitative regulatory framework. However, many challenges remain: the population is largely rural, with low disposable incomes and often negative perceptions of insurance. Rural infrastructure creates a challenge to distribution. The insurance industry faces a skills deficit and is not yet tailored to high volume, low value business. Outside of banks, MFIs, mobile network operators and a few strong SACCOs, the aggregator landscape is fragmented and distribution remains a major challenge. To unlock the next wave of growth, a number of market and regulatory imperatives arise.

How can these imperatives be realised? At the beginning of this document it was stated that the purpose of the diagnostic is to serve as input or tool to be used by stakeholders in considering a strategic roadmap for the development of the retail and microinsurance market. The diagnostic results are therefore only the beginning of the road. It is clear that the market and regulatory imperatives set out above are best pursued as part of a concerted strategy or joint action plan by stakeholders. Many of the diagnostic findings and recommendations call for further deliberations on the basis of which stakeholders can then decide what the best "levers" are to pull in pursuit of the end-goal of microinsurance development (refer to the result path model outlined in Appendix 1). No single player in isolation will be able to achieve the scale and quality of growth needed to catalyse microinsurance market development at large. The market and regulatory drivers and

imperatives also do not operate in isolation, but are all intertwined. To identify the desired "results path" and navigate its implementation, a concerted effort is therefore needed.

This calls for a platform for engagement between stakeholders from both the public and private sphere. The forthcoming Access to Insurance Initiative Toolkit IV titled "Country-level microinsurance development process: operationalizing the action plan" captures cross-country learning to date in this regard.

Below, we draw on the draft Toolkit to outline the two most immediate next steps to be pursued in Tanzania and give tips, based on international learning, on what to take into account. However, it should be noted upfront that the discussion is *indicative* rather than *prescriptive* – it is up to stakeholders themselves to agree on the process and activities that will best fit the Tanzanian situation.

Step 1: form a stakeholder working group/steering committee

Representativeness. Toolkit IV recommends the formation of a stakeholder working group or steering committee as the backbone of an in-country microinsurance development process. Such a committee should be nominated from among a broad range of stakeholders across:

1. *The insurance value chain (current and potential):* insurers, brokers, banks, reinsurers, alternative distribution channels such as MNOs, MFIs, SACCOs and potential client aggregators such as market or trade associations or unions.
2. *The public sphere*: the insurance supervisor, but also the Ministry of Finance and Central Bank and any other regulatory authority relevant to microinsurance market development in the local context, for example the Ministry of Health or of Agriculture and Cooperatives.

There is a core role to be played by the insurance supervisor in convening and potentially chairing such a working group/committee. In the case of Tanzania, TIRA has already indicated its commitment to fulfilling such a core role and appointing other members of the group. It will be important for group members to have clarity on the responsibilities of the various group members. Once again, TIRA can play an important role in guiding the group to assign responsibilities.

Composition. The size of the group should be limited to ensure that it can work effectively, yet it will be important that it should not be regarded as an elite club, but rather as a group tasked by all stakeholders to deliberate strategic activities on their behalf and feed outputs back to them.

Role of the stakeholder workshop. A stakeholder workshop that is broadly attended by stakeholders across the spectrum serves an important role in ensuring such an outcome:

- *Securing buy-in*. The stakeholder workshop is an opportunity for stakeholders to engage with the draft diagnostic findings, provide feedback and debate the implications thereof for the strategic roadmap. It therefore plays a core role in ensuring broad-based buy-in to the diagnostic findings.
- *Ensuring credibility*. The workshop also provides a platform for discussing the formation of the group/committee and its composition. For example, it may be agreed that

industry associations be tasked to represent individual members alongside regulators and policymakers, or it may be felt that a few particularly committed individual organisations should also be incorporated. This will ensure the credibility of the group.

The importance of coordination. There is an important role for a coordinator to organise the activities of the group and ensure that momentum is maintained. A coordinator is somebody appointed to dedicate her/his efforts to scheduling meetings and initiating and managing projects that the group decided on. This does not need to be a full-time position. Where no dedicated coordinator is appointed (due to funding constraints or other considerations), it is important that somebody else from the group takes explicit responsibility for coordination. This could be an important role for the regulator or, if needs be, the coordination role can be rotated between stakeholders.

Step 2: devise an action plan

Role of the action plan. After the formation of the working group, the next step is for the group to develop an action plan that sets out the goals for microinsurance development, the key opportunities and challenges to be overcome and the strategic activities or roadmap to be pursued by stakeholders to reach the end-goal. Such an action plan does not necessarily need to be a formally adopted national strategy, but can be a very pragmatic plan to set the agenda for and guide the priorities of the stakeholder group.

Box 1. Action plan tips[48]

The action plan is the point of departure that all activities stem from. It is a structured collection of activities that stakeholders have agreed on and it highlights priorities in terms of sequencing and thematic areas. A properly designed action plan ensures that only activities of strategic relevance are pursued and maximises stakeholder value from the various activities. Hence devising an action plan, roadmap or strategy – whatever it may be called – should be the first activity in a coordinated stakeholder process after the set-up phase steps of securing buy-in and formation of the group or committee.

There is no single template for what an action plan should look like and it will be up to the stakeholders to craft it in the local context. Nevertheless, cross-country learning to date suggests at least five key principles or tips to take into account when developing an action plan:

1. **Dedicate time to get it right**. To be effective, the action plan needs to take account of all realities and angles and must speak to all stakeholders' objectives. To ensure that this is the case, it is important not to be over-hasty in drawing up the plan. Here the process followed in the Philippines is a good example: stakeholders convened once a month for two days at a time at an offsite venue to thrash out the details of the strategy and directly draft the text. The offsite venue, well-structured agenda and clear time schedule towards a final strategy ensured focus.
2. **Be context-specific**. While it is important to learn from experience elsewhere, no action plan can simply be copied over from another country. It has to be informed by the domestic context and an understanding of the local market realities, regulatory framework and policy and regulatory objectives. As such, it should speak to the key opportunities and challenges identified through the diagnostic exercise.
3. **Set clear goals and align activities to desired outcomes**. An action plan is never just a loose collection of random activities. It has to serve a purpose. In order to do so, all strategic activities must relate to a number of clear objectives or goals to be achieved through the process. As discussed above, these goals will be set based on the opportunities and challenges in the local context as highlighted by the diagnostic. Then ensure that all activities pursued are explicitly

[48] Source: Early draft version of the forthcoming Access to Insurance Initiative Toolkit IV.

designed to address gaps or unlock opportunities so as to contribute to the objectives.

4. **Be realistic.** The old adage not to bite off more than you can chew is particularly relevant to an action plan. An overambitious action plan is likely to be impossible to implement fully or comprehensively enough to make an impact. This can see players losing interest and the momentum being lost. It is therefore important to be strict in prioritising only a few actions that are: (i) most likely to contribute to achieving the strategic goals; as well as (ii) realistic to implement given the available resources and time.

5. **Proactively consider funding needs.** It is important to allocate funding for roll-out of specific projects identified in the action plan, based on a realistic budget and with allowance for contingencies and overspend due to unforeseen events. In addition, there should be general funding available to fund the role of a coordinator (if such a role is decided on) and for overheads such as hosting of meetings. To ensure that funding is forthcoming, the action plan should include a fundraising strategy comprising a mix of funding modalities, with contingency plans in place, should the initial strategy not render the desired results. Potential funding modalities include:

   - *Sign up one or more core funders upfront*. This is for example the case with GIZ Ghana, GIZ MIPPS and the Asian Development Bank in the Philippines, Financial Sector Deepening Trust Kenya (FSD Kenya) and the ILO/UNCDF in Kenya and FinMark Trust and the ILO/UNCDF in Zambia.
   - *Ad hoc fundraising*. Alternatively, the stakeholder group, most likely via the coordinator, would raise funds on a project-by-project basis for the various aspects of the action plan.
   - *(Partial) self-funding*. Cash or in-kind contributions by government and private sector stakeholders participating in the process are a powerful signal of buy-in and will ensure on-going commitment. In-kind contributions can for example include time set aside for working group activities, sponsoring of office space or covering staff members' costs to attend working group events.

Care should be taken that the process does not become dependent on one core funder to the extent that it collapses if, for whatever reason, that funder pulls out. Country experience has shown that sometimes even small budgets can be sufficient to keep the momentum going and implement defined projects, as long as there's flexibility to be nimble in how budget is allocated, and that this can be preferable to waiting for larger pots of money to come on board.

Potential activities. Stakeholder action plans to date have tended to identify activities across the broad thematic categories of demand-side, supply-side and regulation. Toolkit IV gives a detailed overview of potential activities and provides considerations regarding prioritisation and sequencing of activities, as well as potential pitfalls to be avoided.

For Tanzania, the market and regulatory imperatives identified by the diagnostic findings can be taken as point of departure. The action plan should then identify specific activities that can contribute to each imperative and, from the full list, prioritise those likely to have most impact. In the table below, we provide some example activities for each of the imperatives identified in Section 4.1:

Imperative	Potential activities
1. Creating a compelling retail business case	• Conduct a survey or exercise to assess buy-in to the concept of microinsurance at senior management and board level across all insurers and use that as basis for identifying specific strategic activities. • Convene a workshop for senior management and board members where innovative microinsurance case studies from other countries are shared and the business case explained and debated • Subject to funding, consider the potential for a grant or seed fund that uses competitive

Imperative	Potential activities
	grants to trigger investment in microinsurance
2.Building skills and capacity to trigger product microinsurance innovation	• Conduct a detailed assessment of insurers' capacity for microinsurance product design, roll-out and servicing, drawing on available international materials for such an assessment (refer to Toolkit IV for further information) • Organise case study workshops (see above) where the features of microinsurance models, internationally, success factors and lessons, are considered • Organise operational training for staff on microinsurance, drawing on available curriculum materials from the ILO Microinsurance Innovation Facility and other organisations (refer to Toolkit IV for further details). Specific training topics include: business planning; key performance indicators; product development; partnership management; or use of technology. • Support MIS development across industry, for example by inviting potential service providers to come and present to industry members, by commissioning a short study to scope available options, their costs, pros and cons, or by taking stock of what systems and technology other microinsurance providers use, internationally. • Support technical skills development in the country, for example: o Engaging with the Institute for Finance Management and helping to develop the contents for specific modules that speak to the types of skills that insurers require o An industry-wide initiative to offer scholarships, mentorship programmes, or internship/trainee programmes for actuarial students
3. Ensure positive market discovery	• Conducting further research, or inviting insurers from abroad to come and present learning, regarding ways to ensure client awareness and value in embedded product scenarios • Agreeing on indicators of client value to be tracked across insurers and submitted to TIRA for the purpose of for example publishing an "industry best practice" index that individual players can benchmark themselves against.
4. Educate customers through the sales process	• Consider voluntary industry best practice standards for customer disclosure, considering whether there is room for adoption of a standard glossary of microinsurance-relevant terminology to be used across policy documents. • Deliberate on the product-relevant training that sales representatives need and feed this into the microinsurance intermediation regulatory deliberations (see Imperative 9 below). • Consider various options for generic consumer education campaigns and how this can be aligned with the national financial education strategy, as well as what the sequencing of consumer education activities vis-à-vis the other activities in the action plan should be.
5. Pursue strategic distribution partnerships	• Commission further research to scope the landscape, interest and capacity of various potential aggregators, focusing specifically on identifying the key networks with most potential for scale, as well as the strongest capacity for delivery of intermediary services • Invite aggregators to a workshop on microinsurance where they can be introduced to the concept of insurance distribution and insurers can network with them. • Facilitate discussions between those aggregators with most potential and insurers in "partnership brokering" fashion – can hire consultants with knowledge of the particular aggregator categories to act as facilitators.
6. A general "step-up" of prudential requirements instead of separate microinsurance licence	• Organise a series of workshops between TIRA and industry to discuss potential areas of reform and realities to take into account. • Commission further research inputs (e.g. actuarial modelling) on exact levels and approach on various parts of the prudential framework that will be in line with a proportionate application of the Insurance Core Principles.

Imperative	Potential activities
7. Consider regulatory treatment of community-based health insurance schemes	• Convene intra-government coordination process between TIRA, Ministry of Health and SSRA on regulatory roles in the health financing landscape and the position of private community-based schemes. • Commission further research on the landscape of private/NGO community-based schemes to understand their reach, operating model and funding mechanisms. • Convene a forum between TIRA and private/NGO community-based health schemes to discuss market realities and regulatory options
8. Make microinsurance distribution options as broad and flexible as possible.	• Convene a stakeholder workshop specifically to discuss the contents of the draft microinsurance regulations and organise further forum discussions on the details of the microinsurance intermediation space • Consider market conduct standards for microinsurance through a Code of Conduct
9. Use stakeholder process to develop product definition of microinsurance.	• Set up a sub-committee within the working group, chaired by TIRA, to specifically consider microinsurance product parameters and standards, the scope of the microinsurance agent space and training requirements for microinsurance agents. The sub-committee should then present proposals to the working group at large.
10. Consider more explicitly accommodating low-risk as part of a risk-based AML/CFT regime	• Commission an AML/CFT expert to do a risk assessment on microinsurance-relevant products in the Tanzanian landscape and recommend simplified CDD measures and other risk-based elements that will be acceptable under the FATF Recommendations. • Prepare a proposal in this regard that TIRA can present to the Ministry and the Financial Intelligence Unit as basis for engagement.

Table 2. Potential activities corresponding to market and regulatory imperatives

Source: authors, drawing on international experience to date

Note that these are indicative examples only and do not represent the universe of potential activities. It is up to the stakeholder group to decide which activities make most sense in their situation. Furthermore, the need to be realistic, as set out in Box 1, may imply that only a handful of priority activities are eventually chosen.

Tanzania will not be the first country to embark on a stakeholder process to develop the microinsurance market. It can draw on the experience of a number of other countries. Box 2 provides an overview of lessons to date as captured in the forthcoming Access to Insurance Initiative Toolkit IV:

Box 2. African stakeholder process examples

Ethiopia

In Ethiopia, the regulator has been part of the process alongside market players from the beginning. Following the diagnostic study, a local stakeholder committee was formed, coordinated by a development partner. A detailed action plan was drawn up, as well as a number of quick-win/first order priority activities for cooperatives, MFIs and labour unions. Activities pursued include financial education, product development, SACCO capacity building, as well as, more recently, regulatory reforms. Over time, the committee evolved to address specific topical needs. In this way, a SACCO sub-committee and an MFI sub-committee were formed. The key success factors include (i) the active/leading role by the supervisor; (ii) the supervisor's willingness to enter into discussion with industry and flexibility to accommodate pilots and bring about regulatory reforms to create scale in the microinsurance market; (iii) the response by industry; and (iv) the continued coordination role by

the development partner.

Ghana

Ghana is one of the countries with the longest track-record in a microinsurance development process. What sets it apart from other countries is that there has been no coordinated stakeholder forum *per se*, but rather strong leadership by the regulator, combined with on-going support from a development partner (GIZ), involving industry where relevant. The process originated when GIZ co-funded a microinsurance "mini-diagnostic" in 2008/9. The recommendations led to engagement with the National Insurance Commission on various topics over time, spanning product development skills, IT and management information systems (MIS), awareness creation, actuarial skills and regulatory reform for microinsurance.

Main activities to date have been further research on supply and products, continued stakeholder dialogue through hosting of workshops on a topic-by-topic basis (e.g. on risk-based supervision), conducting an insurance core principle (ICP) Self-Assessment, plus a study to assess actuarial capacity among relevant stakeholders including insurers. On the demand-side, they have conducted a demand survey, produced two movies and adopted multi-channel approaches such as training of "consumer advocates", road shows, and radio shows to build insurance awareness. Arguably the most important activity has been the revision of the regulatory framework, with a bill now submitted to Cabinet. Furthermore, the National Insurance Commission (NIC) and GIZ, in partnership with the Munch Re Foundation, hosted a microinsurance conference in May 2012.

The two key **success factors** have been the commitment and willingness to take the driving seat by the NIC, plus the consistent engagement and support of GIZ over time. However, regulatory and donor commitment alone is not enough. A key **lesson** has been that, in order to achieve success, not only is a regulatory framework needed that creates certainty: knowledge and access need to be increased on the consumer side, plus there must be a suite of products on the market that have value for the poor. On the demand-side, the NIC with the support of GIZ is hosting an annual insurance awareness event, tying with the Ghanaian government's broader financial literacy campaign. On the product side, industry was rather sluggish to respond at first and as time has progressed, the emphasis has shifted to more proactively involve industry. For example, when the NIC recently decided to develop a microinsurance regulatory framework, a number of consultative forums were organised whereby industry were consulted on the proposal, with each forum dealing with a particular theme. The actuarial association is also frequently engaged and has, for example, provided microinsurance pricing training to industry in partnership with the ILO. The NIC and GIZ are working towards getting more stakeholder involvement particularly from the Ghana Insurance Association.

The main **challenges** faced to date have been securing buy-in from insurance companies by convincing them of the business case for microinsurance for the period up to which it becomes profitable (investors need more patience than for conventional insurance). Another key challenge has been human resources/skills in industry and the fact that there were no early industry champions for microinsurance and no industry-wide committee/coordination beyond the topical industry meetings organised by the NIC/GIZ. Rather, microinsurance was something pushed by the NIC and one donor (GIZ). With a few exceptions on a project by project basis (e.g. funding for software for regulatory reporting), other funders have also not been getting on board.

Kenya

Kenya embarked on a coordinated microinsurance development process at the beginning of 2012. Like Ethiopia and Zambia, the process has its roots in the microinsurance diagnostic study completed in 2010. The Kenyan microinsurance market has been very active for a few years already, with a number of innovative partnerships and product pilots, as well as ample development partner involvement. In a sense, the regulator has thus responded to market development, rather than the other way around as is the case in some other countries.

Despite a few *ad hoc* activities and working group meetings since the end of 2009, there was no concerted microinsurance stakeholder process in Kenya up to the beginning of 2012, when Access to Insurance Initiative partner ILO/UNCDF, along with Financial Sector Deepening Kenya, appointed a local coordinator. Now, a working group has been set up. The key stakeholders in the working group are the regulator (as chair), a number of insurers active in microinsurance, Financial Sector Deepening

Kenya and other development partners. This working group initially adopted a few quick win activities and are now in the process of devising and implementing a long-term strategy.

Lessons: as the process so far has shown, a dedicated coordination function is needed to mobilise a joint action plan process and maintain momentum. A number of factors bode well for the success of the process, most notably the interest of the regulator and industry (through its association). Furthermore, Kenya is characterised by relatively high consumer awareness compared to peer countries and the pervasive M-Pesa network provides a ready payment system and potential distribution network for microinsurance. It has also created a "spirit of innovation" in the market, demonstrating to insurers that scale is possible in the low-income market.

Zambia

Zambia is one of the microinsurance stakeholder process pioneers alongside Ethiopia. The funders, ILO/UNCDF and FinMark Trust, envisaged a stakeholder roadmap process as part of the diagnostic outcomes and used the stakeholder workshop to create buy-in from the regulator, industry and other stakeholders. Soon after, a "technical advisory group" (TAG) was formed with representation from the insurance and broker industries (through their associations), the microfinance industry, the bankers' association, the Pensions and Insurance Authority, the Ministry of Finance and the Bank of Zambia. The chair of the insurance industry association was elected chair of the TAG. Others such as the Ministry of Labour have subsequently joined. During the first year, the TAG met regularly (bi-weekly) to establish the process and gain momentum. Now it meets on an as and when needed basis.

The TAG's first activities were to appoint a coordinator and develop and adopt an action plan. Since then, it has focused on implementing the action plan through a number of activities, including a dedicated aggregator landscape study and supplier capacity assessment in microinsurance, as well as several microinsurance seminars and training courses, inputs on regulatory reforms and, most recently, the launch of a competitive grant fund, the Microinsurance Acceleration Facility (MAF) to trigger microinsurance investments. It was decided to only implement consumer education activities once there is a sufficient product suite available to the low-income market. Hence the first phrase of engagement focused on the supply-side and a consumer education strategy is now being developed.

The Zambian microinsurance development process highlights a number of **lessons** for other countries:

- The creation of the action plan upfront has meant that there's been a logical flow to the process, rather than just a haphazard set of activities pursued without strategic design. At the same time, care has been taken to keep the action plan relatively fluid, adding relevant aspects as they come along.
- Another key success factor was the commitment upfront of the insurance supervisor and its willingness to take a leading role in the process. The fact that government is pursuing a broader financial inclusion agenda through the Financial Sector Development Plan (FSDP) has meant that the TAG process has found a home in a broader government commitment to financial inclusion. At the same time, one of the key success factors has been that the TAG process was deliberately set up to not be incorporated formally into the bureaucracy of the FSDP, so as to enable a fluid process where quick decisions can be taken and activities can be implemented at committee members' discretion.
- The fact that the momentum has been maintained over a period of almost three years can be ascribed to the appointment of an independent coordinator as well as the continued on the ground presence and involvement of one of the funding partners, FinMark Trust. However, fundraising remains a challenge. Equally challenging has been the convincing of insurers of the business case for insurance to the point where they actually started to make microinsurance investments. Three years down the line, patience has paid off, with a number of recently launched microinsurance offerings now on the market and more in the pipeline.
- Another lesson is the importance of establishing a baseline and to set indicators and targets for monitoring and evaluation purposes from the start. This was not built into the Zambian process upfront.

Appendix 1: Landscape inter-linkages

Section 3 identified the end-goal of a process towards a more inclusive insurance market contributing to *welfare gains* which, in turn, speak to government's growth and poverty reduction goal.

Objectives contributing to end-goal. The premise of this diagnostic study is that the central goal can be broken down into three main components, each contributing directly to the end-goal, but through different transmission mechanisms:

- **Macroeconomic growth**. Economic growth at large is the result of growth in the real economy, which in turn is impacted directly or indirectly through various policy initiatives aimed at stimulating economic growth.
- **Socio-economic gains**. Socio-economic gains are driven by various government and development organisation policies and budget support for education, healthcare and other poverty-alleviation measures. In addition, it is also impacted by growth in the real economy, through the trickle-down effect it has on people's livelihoods.
- **Financial inclusion**. We indicate financial inclusion separately as contributing to welfare gains. This link is well-established in the literature. Much of its impact is transmitted through the other two welfare determinant categories: financial inclusion is a contributing factor to socio-economic gains through the impact it has on people's ability to manage their finances, i.e. to cost-effectively transact, to save, access credit and to manage the financial impact on their risk exposure. At the same time, financial sector growth (which generally leads to greater financial inclusion) is a contributing factor to macroeconomic growth.

As is apparent from the discussion above, these three areas are interlinked in various ways. Each of them, in turn, is driven by a number of contributing factors. The following diagram sketches the complexity of the inter-linkages:

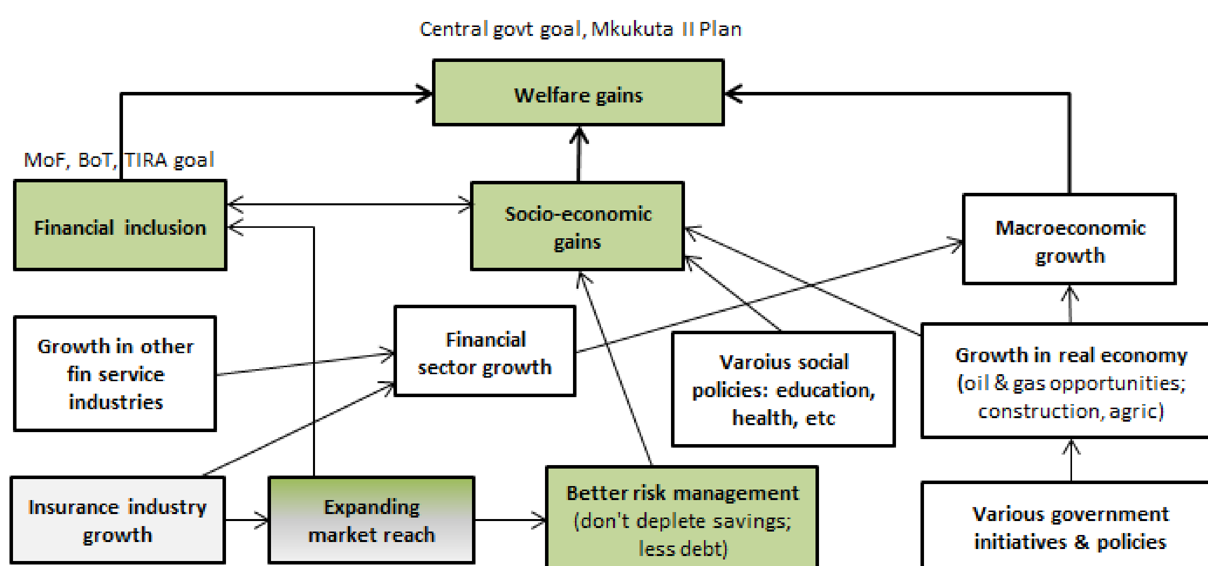

Figure 7. The public policy end-goal and its core contributing factors

Source: authors' representation, drawing on the GIZ concept of the "results model"

Interlinked set of factors contribute to each objective. The inter-linkages do not end at the objective-level. The various market realities, implications and drivers highlighted in this document all form part of a complex environment where various factors (context, demand-side, supply-side and regulatory in nature) co-determine, in an intertwined way, the end-goal over time.

Relevance for action plan. To get to the end-goal, various *result paths* are possible: that is, by impacting on the determinants of any of the three core objective areas, the end-goal can be influenced. This diagnostic study looks specifically at those industry-related, distribution-related, context-related, demand-related and regulation-related factors that impact on the expansion of insurance sector market reach, so as to contribute to financial inclusion and create socio-economic gains.

Below we indicate a graphical summary of these inter-linkages. It appears complex at first glance. This is deliberate – an effort to show how the various thematic areas covered in the diagnostic are intertwined, how multidimensional the landscape is. Ultimately, the stakeholder process that will follow on from this diagnostic study will have to take a holistic view of the various contributing factors and decide on key activities that can be targeted in its strategy or action plan. The point is therefore that there will always be contributing factors that are not covered and will impact on market development, many of them outside of the control of stakeholders. The task facing stakeholders is to identify those "levers of change" that can most feasibly be pursued as part of an inclusive insurance development strategy.

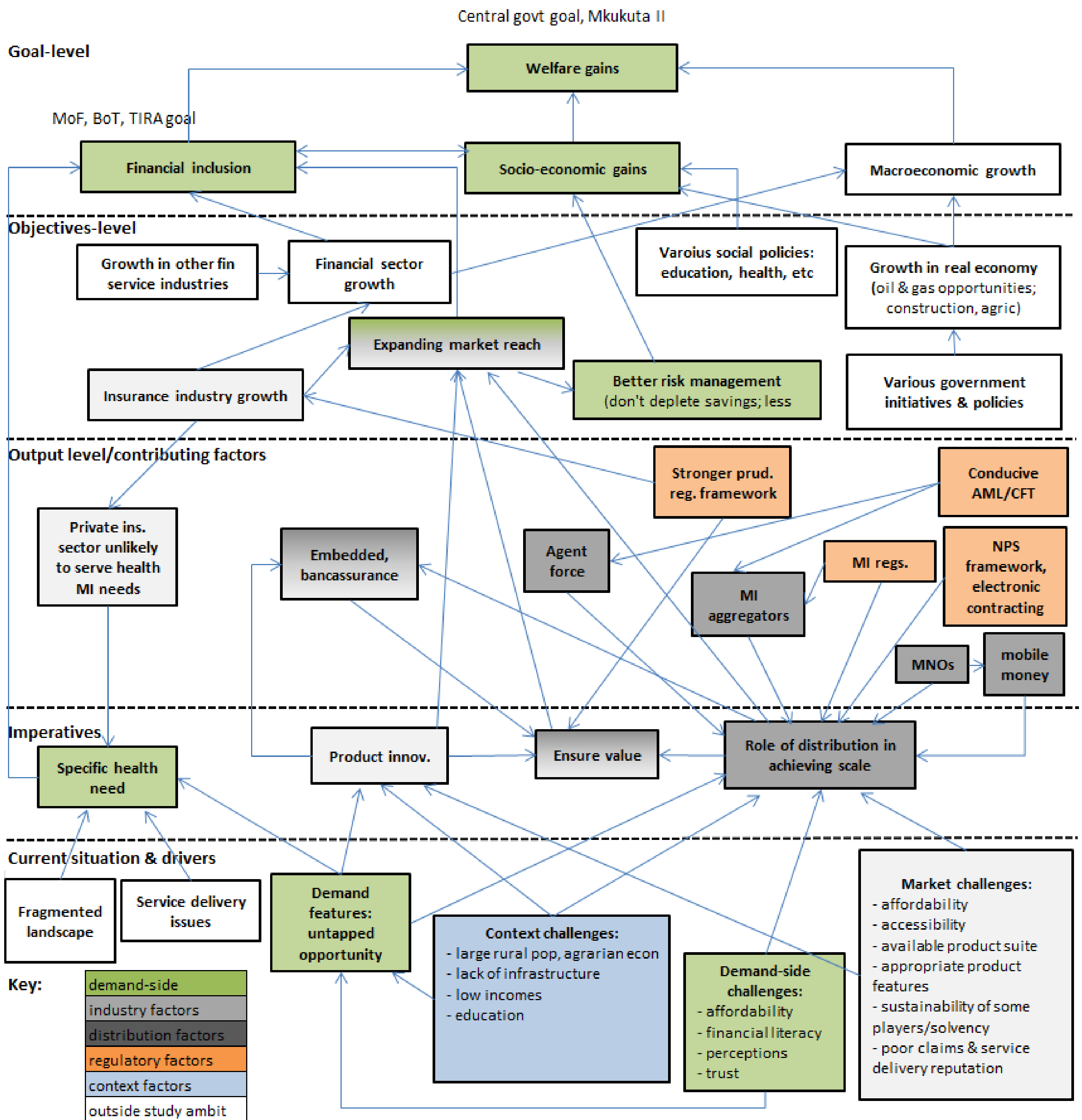

Figure 8. Development goal, inclusive insurance market results path and interlinkages

Source: authors' representation, drawing on the GIZ concept of the "results model"

Appendix 2: Key findings of other diagnostics in the region

The following table provides some summary findings across the African diagnostics completed to date (note that information was current at the time that each diagnostic was conducted and does not reflect subsequent developments or trends):

Country	Key descriptors				Recommendations
	Context	Demand	Supply	Regulation	
Uganda (2008)	Very rural, poor population Relatively underdeveloped formal financial sector, but rise of mobile money changing the landscape	Absolute poverty limits insurance demand Low awareness Lingering effects of currency devaluation and hyperinflation undermine trust in insurance sector	Entry of foreign insurers a major driver Life underdeveloped (only 4% of total premiums) vis-à-vis general (corporate) insurance Poor insurance value proposition (in terms of claims, expense ratio) relative to regional peers	Insurance Act of 2000 contained some areas of uncertainty, did not make provision for health insurance, placed intermediation limitations including on MFIs and bancassurance beyond insurable interest and premium limits, plus limited space for mutual/cooperatives. Recently introduced 2011 amendment act. Notable reforms include allowance for regulation of health insurance, bancassurance space and for microinsurance (details to be determined in regulation)	Establish retail insurance beyond credit life Improve efficiencies so that clients can be “won over” by better value proposition Guard against overly restrictive regime (especially with regard to intermediation requirements, institutional form) Clarify uncertainties in regulatory framework to promote confidence in the market.
South Africa (2008)	Middle-income country, with largest, most urban	Almost 50% of adults have some form of	Sophisticated, well developed sector.	MI regulatory framework being developed to	Proposed MI regime already takes on board lessons and

Country	Key descriptors				Recommendations
	economy among regional peers	cover already, driven by very high cultural demand for funeral insurance and prominence of burial societies	Traditional high-end focus, but significant movement in MI market in recent years, distribution and product innovation Initial trigger for MI drive: financial inclusion policy and targets, but has now grown into spontaneous, mainstream insurance sector interest Formal sector gaining ground in funeral insurance market at expense of burial societies over recent years Though health and asset products on the rise, with credit life and personal accident also important ,funeral insurance remains by far the biggest MI category	create dedicated MI licence that crosses the long-term vs. short-term demarcation divide, incorporate proportionate prudential and intermediation requirements, opens up institutional space to allow cooperates as microinsurers Regulatory framework to be based on product parameter definition of MI, including benefit cap, contract term limit, exclusion of savings component, and simplicity requirements. Will be accompanied by enforcement and support drive	recommendations in diagnostic, namely: • Need to facilitate positive market discovery beyond funeral insurance • Need to facilitate entry and formalisation
Ethiopia (2009)	Very large population compared to regional peers, 86% rural, very	Very low current insurance usage Illness, death and	State-owned insurer still dominates Limited retail and life	Bank of Ethiopia regulates insurance through insurance	Tap into formally employed market, cross-sell to those already banked, plus MFI and

Country	Key descriptors				Recommendations
	high poverty Low formal employment, inefficient agricultural sector, cell phone penetration still relatively low by regional standards Limited financial sector footprint, low usage	drought biggest risks Community-based mechanisms most important for coping: informal risk-pooling, rotating savings groups and cooperatives and MFIs for credit	experience among insurers 9life premiums <5% of total), largely paper-based systems Heavy dependence on the banking sector for both referral credit insurance business and returns on investment from shares held in banks Most usage through MFIs and SACCOs Fragmented agricultural sector undermines agricultural value chain distribution at scale (but since diagnostic a number of agricultural pilots have been launched)	supervision department Prohibition of foreign entry and partnerships Insurance regulatory reforms accommodate MI, but no separate tier created Significant post-diagnostic development is decision to allow MFIs to underwrite credit life	SACCO client base Strengthen industry and improve efficiencies Tap into informal risk-pooling groups, agricultural value chain Consider regulatory gaps, address need for consumer protection Consider potential for partnership with foreign insurers
Zambia (2009)	Small population, high poverty, most rural Traditional copper mining dependence	Death and illness two single biggest threats Social networks, informal savings groups, selling assets, borrowing, eating less, etc to cope	Traditional general insurance dominance, but growing interest in retail market After three years of MI stakeholder process[49], a handful of MI pilots and products launched	Government financial inclusion commitment through financial sector development plan. Insurance Act 1997, with comprehensive 2005 amendments. New act now being developed,	Create platform for dialogue between stakeholders (industry and regulators – since implemented through MI Technical Advisory Group active past 3 years) Catalyse innovation through documentation of case studies,

[49] Note that these trends are post-diagnostic, as a result of the microinsurance stakeholder process launched after the diagnostic.

Country	Key descriptors				Recommendations
		Low spontaneous awareness and willingness to pay for insurance.	recently, mostly funeral, personal accident Broker-driven group sales dominate, new MI models exploring aggregator opportunities	with plans for MI regulations that will create separate MI licence. No mention of medical/health insurance in act, implying grey area	better use of FinScope insights, supporting capacity development, etc Explore potential for partnerships in agricultural value chain Take policy stance to facilitate MI (recommendation since implemented by Pensions and Insurance Authority) Selective regulatory reform (including recourse framework, clarification of definitions, allowing bancassurance, opening up agent-insurer partnership requirements) rather than dedicated MI framework Interdepartmental coordination on issue of creating health insurance framework
Kenya (2010)	Growing financial sector reach, with M-Pesa market "explosion" single biggest driver Smallholder farmers, traders and manufacturers dominate employment	Usage remains relatively low despite MI innovation – undermined by low client awareness, high distrust Death of breadwinner, health and accidents biggest risks, importance of funeral	High level of innovation in MI products and alternative distribution already witnessed One of the few regional countries where corporate general insurance does not dominate	Regulatory reforms place emphasis on professionalization of the industry, including higher capital requirements, introduction of demarcation between life and non-life. Funeral assistance (in-kind) currently exempted	Reap low-hanging fruit opportunities: market size could increase more than 3-fold just by tapping into firs-order opportunities inside M-Pesa, banked market and formally employed market. Serving members of the various networks (e.g. trade associations)

Country	Key descriptors				Recommendations
		cover Family support biggest coping mechanism, followed by finding additional/better job, drawing on savings 4m Kenyans belong to so-called welfare societies (informal risk-pooling), but payouts not enough to cover full risk exposure	MI-relevant lines, e.g. personal accident, have been growing strongly Variety of distribution channels, including aggregators and agricultural value chain entities, already used	from regulatory framework	and welfare society members. Leverage NHIF for distribution to informal sector, or complement NHIF through private cover. Unlock opportunity presented for funeral insurance Further explore opportunities in agricultural value chain, among input providers Regulator to avoid case by case exemptions Careful structuring of price and expenditure control needed Flexible and low-cost intermediation regime required for MI Facilitate distribution of health insurance by agents Include funeral insurance in regulatory sphere
Swaziland (2011)	Small country with government as largest employer, dependent on regional trade, has been struggling with fiscal crisis of late Broad-reaching financial	Death biggest risk, but funerals less pronounced than in SA Relatively high awareness and willingness to pay for insurance as	All insurers majority foreign-owned, trends spill over from SA Funeral insurance most common MI product, growing prominence of credit life, short-term	Insurance Act 2005 now being redrafted (2010 bill) to scale up, meet international standards. Plans to include MI based on existing second tier space for assistance	Small market size,: limited opportunity in absolute terms, but distribution less challenging Proximity to SA: regional drivers, opportunity for innovation spillovers

Country	Key descriptors				Recommendations
	infrastructure	community contribution become less certain	usage very low Brokers most important distribution channel	business (funeral) licence No clear framework for health insurance	Regulatory recommendations: Create second tier for MI, defined across the demarcation divide Open up intermediation space Seek synergies with emerging international best-practice
Mozambique (2012)	Low-income country, high post-civil war growth, but now growing inflation Agricultural sector "employs" 80% of labour force Rapid expansion of banking and payment system coverage	Illness, followed by death highest-ranking risk Borrowing from family & friends, or selling assets to cope Very limited insurance exposure	Foreign entry starting to change competitive landscape Asset insurance dominates premium volumes, but health and life most usage Brokers, bancassurance largest channels, limited use of agents, MFIs and other aggregators	New act (2010) includes provision for MI, including opening up intermediation space	Tap unserved formally employed market first Consider how to revive MFI sector through insurance roll-out Better integrated framework for intermediaries across categories Requirements for simplified policy content and contracting Intermediaries should not be constrained by single insurer partnerships

Table 3. Key findings from diagnostics elsewhere in Southern and Eastern Africa

Source: various diagnostic documents, available at: www.access-to-insurance.org

Appendix 3: Meeting list

	Organisation	Name	Position
1	AAR	Kain Mbaya	Managing Director
2	African Life Assurance	Julius Magabe	Chief Executive Officer
3	Aga Khan Foundation	Altaaf Hasham	Executive Officer
4	Airtel	John Ndunguru	M-Commerce Corporate Manager
5	Alexander Forbes	Sanjay Suchak	Managing Director
6	Alliance Life Assurance	Aakash Mishra	General Manager
		Suresh P.	Technical Manager
7	Bank of Tanzania	Lucy Kinunda	Director: Payment Systems
		Joseph M.B Massawe	Director: Directorate of Strategic Planning and Performance Review
		Albert Mkenda	Head, Project Management Unit: Directorate of Strategic Planning and Performance Review
		Rosemarie Twagirayezu-Kwimbere	Assistant Manager, Technical Assistance Programs Coordination Department: Directorate of Strategice Planning and Performance Review
		M.M. Mbawala	Manager: Technical Assistance Coordination
8	BRAC Tanzania	Gunendu Roy	Country Representative
9	CRDB Microfinance	Elikira B. Nkya	Manager Wholesale Operations
		Arthur A. Mosha	Manager Insurance
10	Fanikiwa Microfinance Company	Thaddeo W. Mashera	Chief Executive Officer
		Victoria Charles	Legal Officer
		Samson Katemi	Finance and Administration Manager
11	FSDT	Sosthenes Kewe	Technical Director
12	GIZ	Kai Straehler-Pohl	Health Financial Advisor
13	Golden Crescent Assurance	Punnoose Varkey	Chief Executive Officer
14	Institute of Finance Management (IFM)	Dr Kihanda Joseph	Dean Faculty of Insurance and Social Protection
		Ancellmi Anselmi	Instructor, Researcher & Consultant: Management of Insurance, Risk & Markets
		Abdallah Naniyo Saqware	Instructor, Researcher & Consultant: Management of Insurance, Risk & Markets
15	International Labour Organisation Microinsurance Innovation Facility	Peter Wrede (previously Aga Khan Agency for Microfinance)	Microinsurance Officer
16	Jubilee Insurance	Zipporah Mungai	Chief Executive Officer
		Peter Malinda	Business Development – Life Division
		Wilson Mnzava	Sales Manager – Group Credit Assurance
17	MicroEnsure	Ryan Lynch	General Manager, Tanzania
		Will de Klerk	Vice President – Health

	Organisation	Name	Position
18	Ministry of Agriculture, Food Security and Cooperatives	Doreen Mwamri	
		Abedhard Mbepala	
19	Ministry of Finance	Sephania R. Mwakipesile	Assistant Commissioner, Policy Analysis Department, Financial Sector Development Policy Section
		Dionisia. P. Mjema	Senior Economist, Policy Analysis Department, Financial Sector Development Policy Section
20	Momentum	Pradeep Srivastava	General Manager
		Evance Massawe	Financial Controller
21	National Health Insurance Fund	Baraka Maduhu	Head of Actuarial Services, Research and Statistics
22	National Bank of Commerce (NBC)	Lawrence Mafuru	Managing Director
		Kemibaro Omuteku	Head of Insurance
23	National Insurance Corporation (NIC)	Justine Mwandu	Chief Executive Officer
		Kura Boniface Kalema	Director of Non-Life Insurance
		Rose Lutu Lawa	Director of Life & Pensions
24	National Microfinance Bank (NMB)	Borondo Zacharia Chacha	Insurance Officer: Personal Banking Department
		Boma O. Raballa	Product Manager Retail Liabilities: Personal Banking Department
25	Phoenix of Tanzania Assurance Company	Ajay Verma	Deputy General Manager (Operations)
		S.B. Dhingra	Deputy General Manager (Finance)
26	Reliance Insurance Company (Tanzania) Ltd	Parameshwaran Rajaram	Chief Executive Officer
		Mark Lyimo	Deputy Director Operations
		Rukia Goronga	Manager – Underwriting
27	Savings and Credit Cooperatives Union League of Tanzania (SCCULT)	Habibu O. Mhezi	Executive Secretary
28	Social Security Regulatory Authority (SSRA)	Ansgar Africanus Mushi	Director of Research, Actuarial & Policy Development
29	Tanzania Association of Microfinance Institutions (TAMFI)	Winnie Terry	Executive Secretary
30	Tanzania Postal Bank	Kolimba Pancras Reuben Tawa	Chief Manager Operations
		Mr Mwakatobe	Head of Insurance
31	Tanzania Reinsurance (Tan-Re)	Rajab Kakusa	Chief Finance & Administration Officer
32	Tigo	Christian Sagarnaga	Corporate Segment Manager
33	Tanzania Insurance Regulatory Authority (TIRA)	Israel L. Kamuzora	Commissioner of Insurance
		Samwel Mwiru	Director: Surveillance & Research
		Margaret T.M Ikongo	Chartered Insurer and Special Assistant to Commissioner
		Paul Joel Ngwembe	Director of Legal Services
34	Vodacom	Dylan Lennox	Managing Executive: New Technologies