Trust Re Perspectives

Growth in Sub-Saharan microinsurance

Microinsurance is a small but growing niche in the third world, particularly throughout markets such as India, China and sub-Saharan Africa. Due to the positive impact and externalities that it creates, insurers are finding greater incentive in providing increased access to microinsurance and affordable protection from risk for low-income families and individuals. In May 2014, Trust Re published a survey report entitled “The outlook for insurance and reinsurance in sub-Saharan Africa”. The report provides a general picture of the current condition and future expectations of the insurance and reinsurance sectors in sub-Saharan markets. The following article aims to analyse the development of microinsurance throughout sub-Saharan Africa based on findings from the report and other sources.

The concept of microinsurance is relatively similar to microfinance, popularised by world-renowned Nobel Peace Prize winner and founder of Grameen Bank, Muhammad Yunus, otherwise known as “banker to the poor”.

Today, microinsurance covers approximately 45 million people across the African continent, accounting for a mere 5% of the potential global market. However, annual growth of microinsurance is in excess of 10% a year, making it a small but growing niche.

Just as microfinance (or microcredit) provides minimal to no cost loans and financing to impoverished people in third world countries; microinsurance aims to provide low-income families with reliable protection and coverage at an extremely affordable rate. In some cases, entire families can purchase medical coverage for a premium as low as $2.50 a year.

It is often the needy that are most in need of financial protection, as they are more prone to risk and damages from unforeseen circumstances. Low rates ensure that needy families are able to afford coverage and mitigate their risk, even if it is just the bare minimum.
Since microinsurance is specifically tailored to protect low-income individuals, most programmes are designed to cover damages incurred to low-value assets and provide compensation for illness, injury and death. Although the payouts are generally much lower than standard insurance plans, microinsurance has proven to be a reliable safety net for low-income families.

Insurers are also taking the added initiative of altering or restructuring existing insurance programmes for the micro market. For example, loan protection, or credit life insurance, which protects individuals from inheriting a deceased relative’s unsettled debts, has also been adapted to cover low-income families in the form of micro loan protection.

For individuals living above the poverty line, small amounts of inherited debt may be financially manageable. But for families living below a dollar a day, an additional dollar of debt could mean another day without bread. And without a reliable safety net or back-up plan, the results could be quite devastating and enduring.
Services such as microinsurance and micro loan protection help low-income families ensure that they do not get trapped in an inescapable cycle of poverty as a result of uncontrollable and unforeseen circumstances, such as the death of a relative or the loss of one’s home or property due to a natural disaster.

Most low-income families are well aware of the long-term consequences that minor amounts of debt and damages will impose upon them. Thus, it is unsurprising to see such steady growth in third world micro financial services.

According to a survey conducted by the International Labour Organization and the Munich Re Foundation entitled the *Microinsurance Compendium Volume II*, microinsurance coverage had reached approximately 500 million individuals by 2012, up from 135 million in 2009. China and India are currently the two largest markets for microinsurance, accounting for 80% of the global market.

Another study conducted by Lloyd’s 360 Risk Insight and the Microinsurance Centre, *Exploring Opportunities in Microinsurance*, estimates that the global market for microinsurance stands at approximately 1.5 to 3 billion policies worldwide. In other words, there are approximately 1.5 to 3 billion low-income individuals who are currently willing and able to purchase coverage.

The graph in Figure 3 tells us that approximately 60% of registered insurers in Africa either currently provide (orange) or plan to provide Micro insurance by the end of 2016 (grey); raising the possibility for Micro insurance to become the third fastest growing insurance line in sub-Saharan Africa by 2017. The ILO’s findings also show that approximately 33 of the 50 largest regulated commercial insurers currently provide some form of micro insurance.
Although microinsurance is primarily considered to be a “social venture”, it is still a profit-generating enterprise. However, the profitability of microinsurance is generally perceived to be quite low. Nonetheless, insurers are finding greater incentive in providing micro insurance due to the positive effects and externalities that it creates for low-income populations.

According to the ILO, “Microinsurance is unlikely to break the cycle of poverty by itself, but... When coupled with social protection, risk prevention and mitigation, and supplemented by other risk-managing financial services such as savings and emergency loans, microinsurance can play a critical role at multiple levels to efficiently manage risks, reduce vulnerability and contribute to poverty alleviation.”

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