

The South African Microinsurance context

Microinsurance seminar for policy makers and regulators, Cape Town
20 Sep 2010



About FinMark Trust and Cenfri



FinMark Trust

- Independent trust established in 2002, funded by UK's Department for International Development (DFID)
- Mission: "Making Financial Markets Work for the Poor" in Africa
- Facilitating and catalysing the next generation of development around access to financial services.
- Theme areas:
 - FinScope
 - Housing finance
 - Credit
 - Consumer financial empowerment
 - Rural and agricultural finance
 - Retail payment systems
 - Insurance
- Further information available at: www.FinMarkTrust.org.za



Cenfri

- Non-profit research centre based in Cape Town focusing on financial sector development and inclusion
- Teaming agreement with University of Stellenbosch Business School to develop capacity building for policy makers and regulators
- Developing post-graduate diploma for financial policy makers and regulators

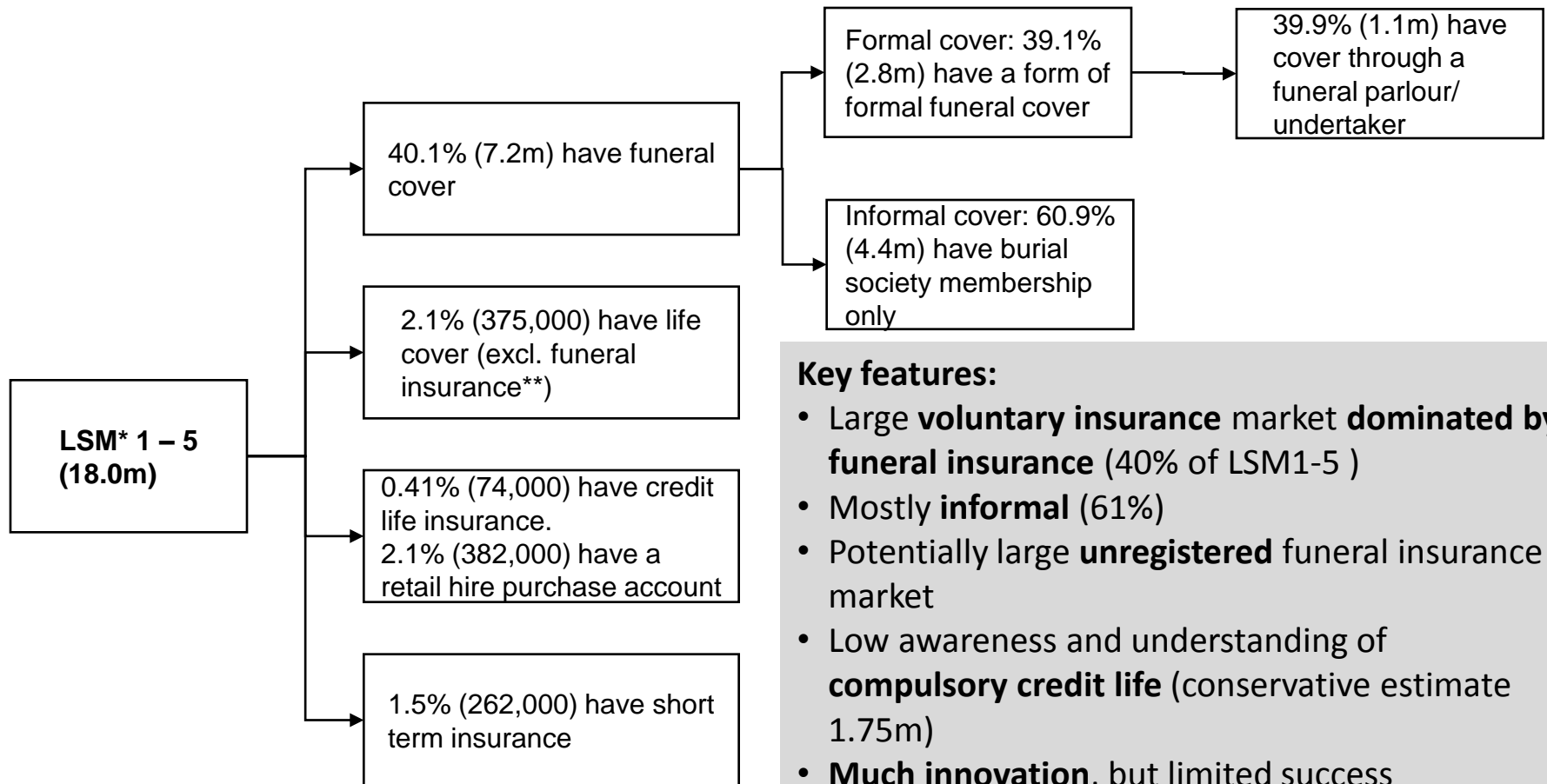


About the Access to Insurance Initiative



- The Initiative is a global programme to:
 - strengthen the capacity and understanding of insurance supervisors, regulators and policymakers,
 - facilitate their role as key drivers in expanding access to insurance markets, and
 - support the implementation of sound policy, regulatory and supervisory frameworks consistent with international standards.
- The goal of the Access to Insurance Initiative is to enhance broad-based, demand-oriented and sustainable access to insurance for low-income clients; thereby growing financial inclusion in the insurance sphere
- The Initiative is a partnership between the IAIS, CGAP, the German Federal Ministry for Economic Cooperation and Development (BMZ), the ILO and **FinMark Trust**. It is hosted by GTZ (German Technical Cooperation)

Overview of low-income insurance market



Key features:

- Large **voluntary insurance** market **dominated by funeral insurance** (40% of LSM1-5)
- Mostly **informal** (61%)
- Potentially large **unregistered** funeral insurance market
- Low awareness and understanding of **compulsory credit life** (conservative estimate 1.75m)
- **Much innovation**, but limited success
- No significant penetration **beyond funeral** yet
- Mostly **monthly renewable** (short-term)

Source: Eighty20 calculations based on FinScope 2007 (using weightings derived from the Census 2001)

* The definition of LSM used is according to the 2005 algorithm

** Does not imply that respondents in this segment do not have funeral insurance, but that they have a formal life policy

SA funeral insurance market

- Large vulnerable market
- Large market with substantial low-income exposure
 - 3,000-5,000 funeral parlours
 - 80,000 – 100,000 burial societies
 - 6.2m African members of burial societies contribute R4.5bn per annum
 - 4.2m holders of formal funeral policies
 - Estimated R5bn spent on funerals per year
- Vulnerable market
 - Social and psychological presence of death
 - Importance of dignified funeral
 - Insensitivity to prices
 - Multiple cover from multiple providers
 - Cultural drivers entrenched by current market behaviour

SA funeral insurance market



Market failures

- Substantial market failures in provision of funeral services
 - Non-enforcement of monetary benefit option
 - Lack of competition and choice in service provider
 - Failure in funeral services complicates regulation and functioning of market for funeral cover
- Enforcement vacuum creates 'soft middle'
 - Lack of control over administrators and funeral parlours results in self-insurance and potentially excessive charges
- Appropriateness of formal products
 - Dealing with extended illness before death (HIV/AIDS)
 - Bundling funeral cover with credit life

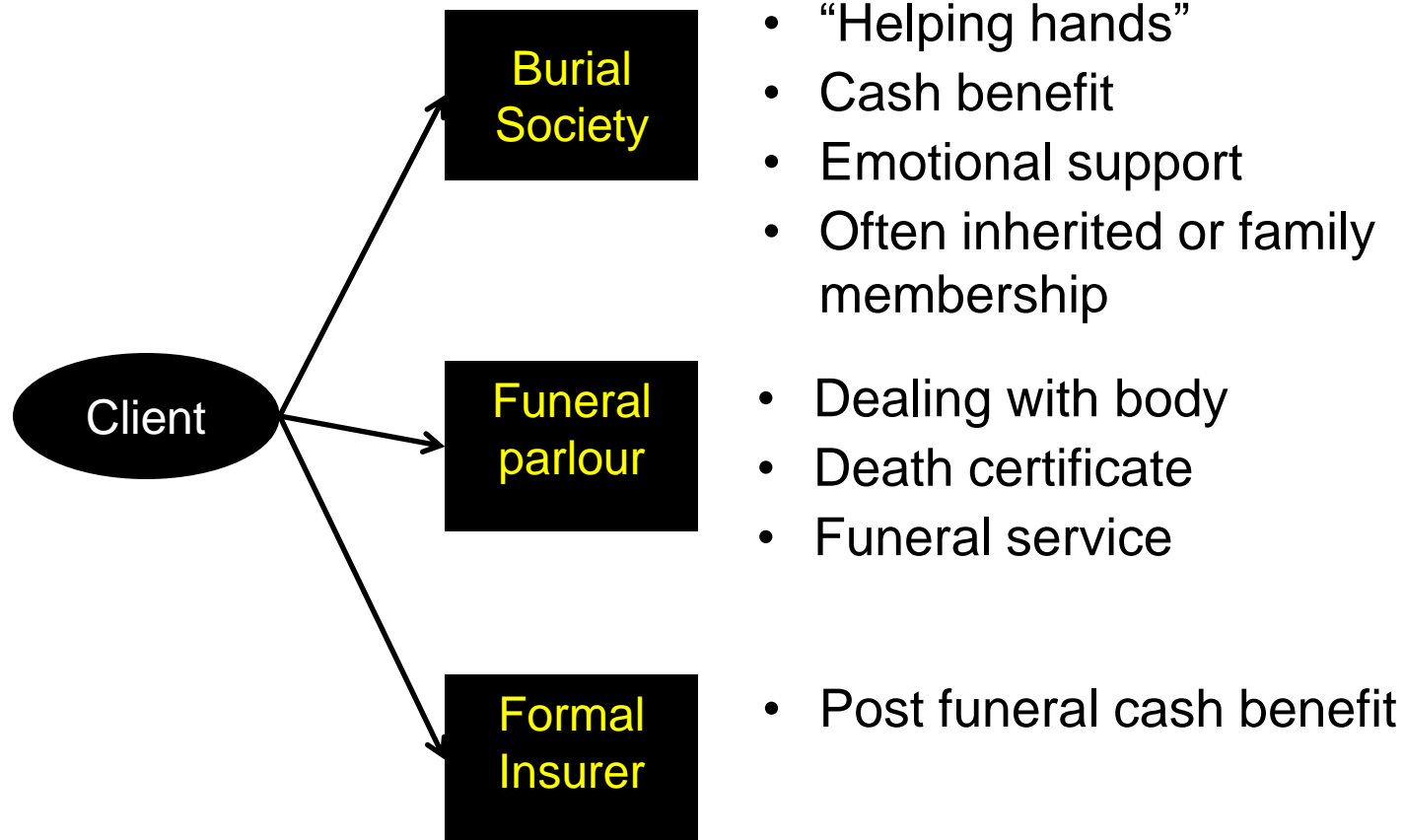
SA funeral insurance market



Client context: Focus group findings

- Importance of a dignified funeral
- Spending priority: “I shall rather live without electricity for a month”
- Insurance bought, not sold?
- Cultural drivers? (not static, current market behaviour may entrench)
- Often use more than one provider
- Often have multiple cover

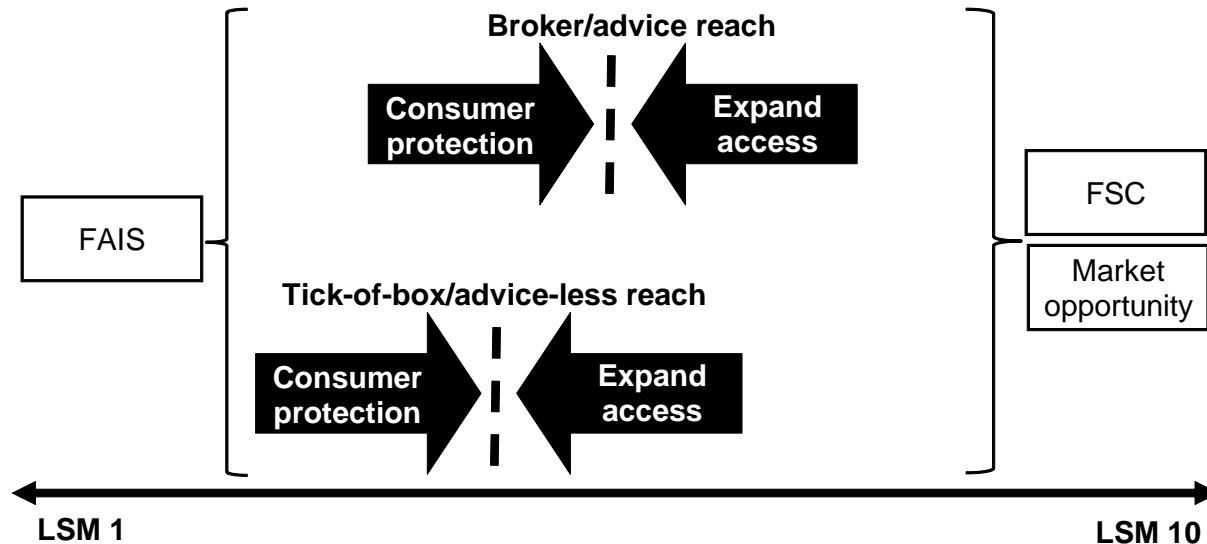
Client context: The role of different players



Abuse in credit life market

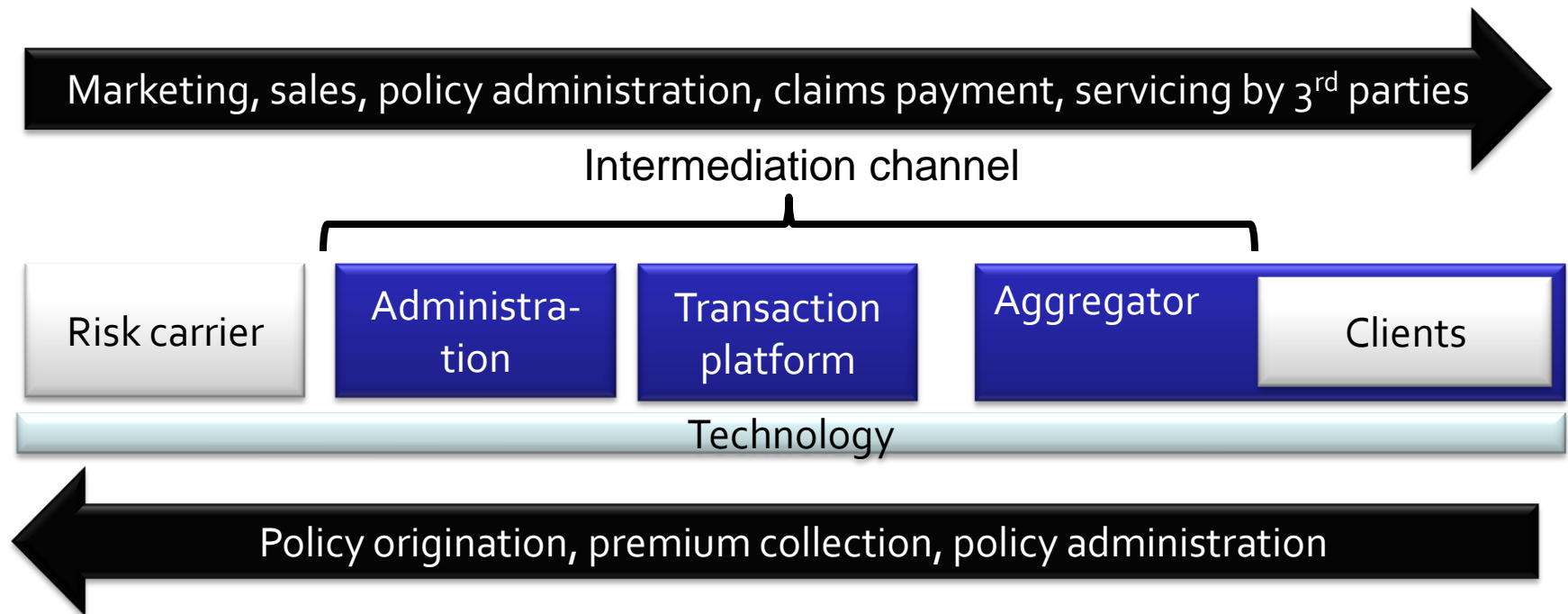
- Credit conditional on buying insurance (legal choice not disclosed or made possible to exercise)
- Disclosure and awareness: Estimate at least 1.75m have credit with cover but almost no-one aware
- Price: risk charges can be as much as 40 times higher
- Unfair practices: Premiums paid upfront and added to loan (even if insurer belongs to same group as credit provider)
- Product features: Riders that are not possible to claim

Innovation and protection

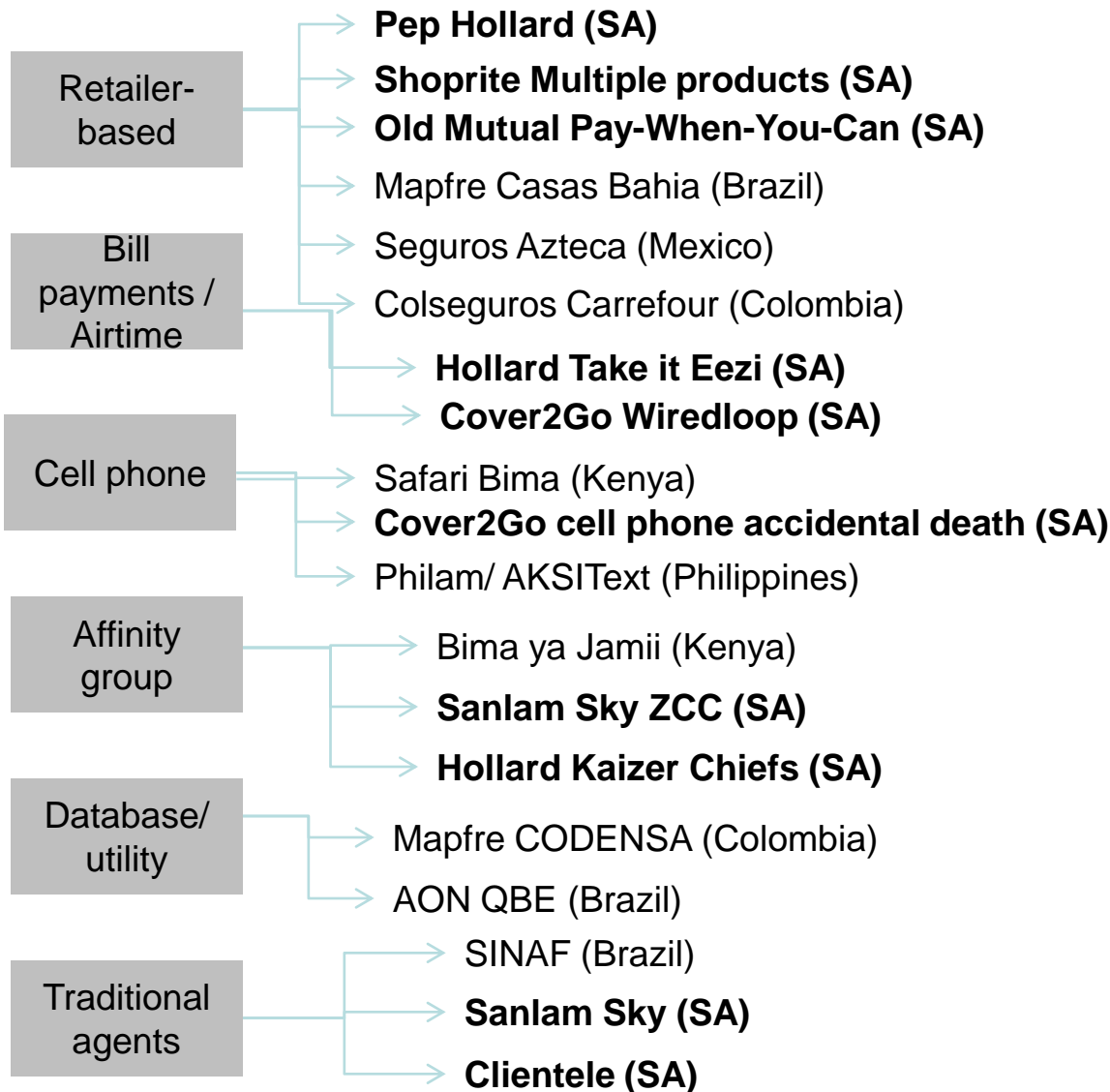


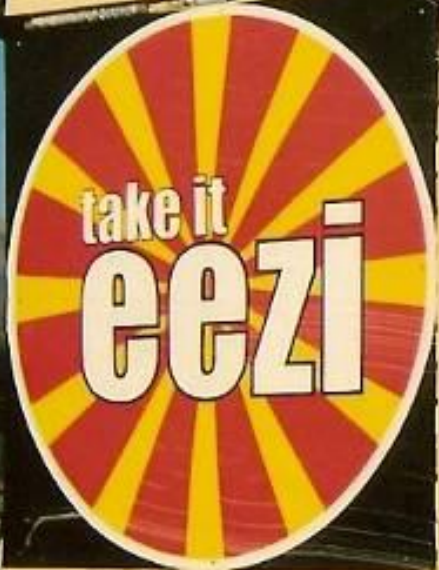
- Market conduct regulation **raises cost of providing advice**
- Allows non-advice models but **require sufficient disclosure**
- **Split market into high-income advice vs. low-income tick-box** (uncertainty on legal position)
- **Conservative compliance officers and uncertainty** due to conflicting interpretations impact on business models
- **FAIS Ombud** extending impact of regulation
- Many existing low-income **agents could not qualify** (Category A and revising requirements)
- Limited success of **passive models and regulatory uncertainty about compliance with FAIS**

Innovation across the MI value chain



Typology of MI models





AIRTIME
ELECTRICITY
PAYPHONE
HOUSE COVER
FUNERAL COVER
INT'L CALLS
STARTER PACKS
EEZI-WIN

RIGHT HERE
RIGHT NOW

Your new agency force?

Key challenges

- **Large informal market** with no protection for consumers
 - Create an appropriate home for burial societies
 - Support formalisation of insurance provision by funeral parlours and other self-insurers
- **Improve value and protection**
 - Compulsory credit life space
 - Administrators
- **Remove entry barriers** for smaller and mutual insurers (e.g. friendly societies, larger funeral parlours, etc.)
- Market conduct regulation (FAIS) **increases costs but leaves poor unprotected:**
- Create the space for models to grow and **extend beyond funeral insurance**

Discussion

Sources



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