

MICROINSURANCE

INCLUSIVE INSURANCE FOCUS NOTE SERIES





About this focus note

Rwanda's Community Based Health Insurance scheme (CBHI) which is under leadership from the Government of Rwanda and its Ministry of Health is widely recognized as a successful model that has made access to health care possible for majority of Rwanda's low-income population. The coverage rate of the target CBHI population was 84.2% in 2016. Despite this success, private insurance penetration is very low. The Finscope 2016 report for Rwanda revealed that only 9% of the adult population indicated to have insurance. This focus note summarises the results of the Rwanda Microinsurance Landscape Study conducted by AFR in association with the Rwanda Insurers Association (ASSAR). The results provide insights into the state of microinsurance sector in Rwanda, challenges and opportunities which can inform policy objectives and market development initiatives aimed at accelerating the development of a vibrant and inclusive insurance market in Rwanda. This focus note kicks off a series of regular updates on the landscape of the microinsurance sector in Rwanda to be published by AFR.

AFR would like to acknowledge and extend gratitude to the two consultants and authors of this focus note, Lemmy Manje and Agnes Uwanyiligira together with our staff Jean Bosco Iyacu who managed this project. AFR would also like to thank all the senior executives and technical staff from the insurance industry that participated in the study and provided the required data. A special word of thanks to the Rwanda Insurers Association (ASSAR) for the great collaboration.





Content

04 Key Highlights
05 Introduction
06 State of the Market
08 Business Case
12 Distribution
13 Client value
14 Industry Perspectives
17 Enabling Environment



Key Highlights



Only **9%** of the adult population indicated to have insurance

Microinsurance cover less than 2% of the population

Only **2** insurers of the **13** licensed insurers have been actively engaged in microinsurance business mainly through agricultural insurance.



Insurers' engagement in microinsurance



Microinsurance product offering is limited to **credit life** and **agriculture insurance** products mainly livestock and crop insurance offered to small scale farmers.

323 million RWF in Gross Written Premiums (GWP) which is less than

1% of the total GWP by private sector insurance industry in 2016. Client value constrained by limited product offerings.



Business case and client value

Distribution



Microinsurance is currently distributed solely by Microfinance institutions, SACCOs, banks, tied agents and brokers. New distribution channels in the pipeline include Mobile Network Operators.

The development of **Microinsurance Regulations** is underway; this initiative is expected to also contribute to the development of an inclusive insurance market in Rwanda.



Regulations

Introduction

Insurance, if well designed and distributed offer a better risk management tool for people regardless of their income level. For the low-income people, insurance can replace some of costly coping mechanisms they use to address the financial demands from the various shocks they face. However, insurance is one of least utilised financial product by people in low-income market segments. Rwanda is not exception with only 9% of the adult population indicating that they have insurance and less than 2% coverage for microinsurance.

In line with its intervention strategy on inclusive insurance, AFR conducted the first country Landscape of Microinsurance study in Rwanda. The study was conducted in collaboration with the Association of Insurers in Rwanda (ASSAR). The study builds on other market assessment studies such as Finscope 2015 and the Landscape of Microinsurance in Africa study conducted by the Microinsurance Network and Munich Re Foundation.

In line with international microinsurance landscape studies, a microinsurance product in this study is defined as:

- Insurance product developed intentionally to serve low-income people;
- Insurance product that is classified as a microinsurance product within the organisation;
- Insurance product, which is not designed as a microinsurance product but currently serving your low-income consumers

Data was collected from all active private insurers in Rwanda. The study confirmed that the Microinsurance sector market in Rwanda is still at a nascent stage and highlighted the key considerations for the development of a conducive environment for inclusive insurance in Rwanda and more importantly accelerate the development of this sector. The study revealed that out of 13 licensed insurers in Rwanda, only 2 were actively engaged in microinsurance business in 2016. Microinsurance penetration remains very low in scale and type of risks covered. Microinsurance coverage is still limited to agriculture insurance to around 97,882 small scale farmers. While credit life does cover low-income borrowers mainly through MFIs and SACCOs, data would ascertain the actual number covered. Total coverage reported by four insurers is around 51,971 borrowers. Total microinsurance 150,000 coverage is around low-income consumers. Notably, the market has remained stagnant since 2014 when the Landscape study of Microinsurance in Africa was conducted. In 2014, only 145,000 lives were covered by microinsurance products and mainly through agriculture insurance.

With a large segment of the adult population excluded from formal insurance and insurers continue pondering whether they can tap into this vast potential and serve them profitably whilst still offering client value. Some insurance companies believe that there is a business case in microinsurance and they need to venture beyond compulsory credit life and leverage the exposure and experience with insurance of majority of lowincome people through the Community Based Health Insurance (CBHI).

AFR and its partners continue leading the quest for a sustainable inclusive insurance market in Rwanda and they are supporting initiatives to promote an enabling environment including the drafting of microinsurance regulations in partnership with BNR, promoting digital microinsurance solutions and the design and launch of the National Agricultural Insurance Scheme.

This study provides insights into key opportunities and challenges in the industry as well as industry perspectives on what needs to be done to accelerate development of an inclusive insurance market in Rwanda.

State of the Market

The microinsurance sector in Rwanda is still at an early stage of development and is characterized with low penetration, low private sector engagement and low financial performance. In 2014, the Landscape of Microinsurance in Africa study revealed that Rwanda was among the countries with the least microinsurance penetration within East Africa; with only 1.2% population coverage in the same range as Burundi (1.2%) and Sudan (1.1%). Comoros (8.5%), Uganda (6.7%) and Kenya (5.9%) are among the countries with highest penetration rates. Two years later, the results of this study still paint a similar picture. The analysis conducted by Cenfri shows Rwanda's insurance industry is in the early stages of compulsory and bundled provision of insurance. The ideal stage of market development is a diversified retail market which enables consumers have easy access to a variety of formal insurance solutions.





Source: Chamberlain et al, Cenfri, FinScope Consumer Surveys



Cenfri analysis of the microinsurance market in Rwanda corresponds with the framework development by the International Labour Organisation's Impact Insurance Facility on stages of market development for microinsurance. ILO's framework on market development focuses on the microinsurance sector. Using this framework, Rwanda is still nascent stage but slowly moving to the growing stage taking into account some of initiatives in the pipeline.





Source: Adapted from ILO's Impact Insurance Facility

The microinsurance landscape study revealed that interest in inclusive insurance is burgeoning. The interviews with senoir executives in the insurance industry revealed that there has been little attention to microinsurance by most of the insurers. Notably some insurers are still struggling to make conventional insurance successful. Some of the insurers keen in entering the microinsurance sector expressed the need for skills development and orientation to the microinsurance business case as well as practical business models that can be tested in Rwanda.

Innovations in the products and distribution models, investments in simple life policies, bundled and embedded products as well as a favourable microinsurance regulatory have the potential of improving the microinsurance landscape in Rwanda. The microinsurance distribution space is set to broaden as market players start to appreciate the benefit of application of technology in the microinsurance value chains to reduce costs, improve client value and effectively distribute microinsurance products.

Business case

Achieving business viability inevitably requires insurers to work with various distribution partners particularly the ones that would provide them with scale. Insurers also need to ensure that they actively engage the low-income market segments to fully understand their needs and craft appropriate value proportions. Insurance companies in Rwanda have not yet embraced the right business case for microinsurance. The study revealed that there only 2 insurers making investments to develop specific products for the low-income consumers. Five (5) other insurance companies have serving the low-income market unintentionally through mandatory credit life. The level of business engagement in microinsurance is summarized in the figure below:



Figure 3 Microinsurance business engagement

Source: Microinsurance landscape data 2016

Unlike other growing microinsurance markets where simple life or funeral policies are provided by insurers, there has been strong interest in provision of agriculture insurance. Notably, this has been stimulated by the distribution channels. It is not surprising that credit life dominates the microinsurance space in Rwanda as some of the insurers have been reaching the low-income market unintentionally. The study intended to use the proportion of the credit life portfolio offered through Microfinance institutions (MFIs) and Savings and Credit Cooperatives (SACCOs) clients to this purpose. However, the data provided had higher loan sizes which signalled that MFIs and SACCOs provide loans to consumers who are not in the low-income market segment. To address this, the study assumed credit life policies in respect of individual loan amount under 2 million RWF as serving the low-income segments.

In 2016, the agriculture insurance offering included Weather Index and Area Yield Index insurance covering around 100,000 farmers as well as limited coverage through multi-peril crop and livestock insurance. Despite a keen interest in agriculture insurance, providers face many challenges including high administration and distribution costs as well as commercial viability and sustainability leading to one provider taking agriculture insurance products off the market at the end of 2016. Rwanda offers effective universal health care scheme (Mutuelle de Santé) and this may explain the lack of micro health insurance products in the market. However, this scheme has created awareness on insurance which can be leveraged by private insurance companies interested in offering microinsurance products. As insurers continue to explore new microinsurance products, the coverage is set to increase over time. Products in the pipeline include funeral insurance and personal accident insurance.



Figure 4 Type of microinsurance products by insurer

Generally, insurance companies in Rwanda realise the compelling case for microinsurance and the potential to tap into a large segment of the population currently excluded from insurance. According to the FinScope 2016, illness in the family, crop failure or loss of livestock and death of a household or family member were underlined as major risks. Although there is a plethora of informal coping mechanisms in place, insurance can provide a more efficient solution to mitigate those risks. Some insurance companies have already invested in microinsurance with two more planning to enter the microinsurance sector within a year. However, few insurers don't see a business case in microinsurance.

A common view echoed by some of senior executives is that performance in conventional industry is likely to be one of the significant deterrent to microinsurance business case. Current providers of non-life microinsurance products highlighted the challenges they face including, lack of effective distribution channels to reach low income population, low demand and inability to achieve scale, very high administrative expenses and profitability issues and lack of technical expertise and capacity in microinsurance. Nevertheless, their interest in microinsurance remains mainly high provided a conducive environment is in place.

Microinsurance is a business of large numbers and this should underline business decisions at various steps of the microinsurance value chain. Given the low premiums low margins combination, insurers need to achieve large scale for profitability and to achieve a business case.

The responses for insurers who are not engaged in microinsurance are summarised in the figure below.



Reasons for non-engagement in microinsurance business

Most of the senior executives seem to be struggling on how best they serve the low-income market segments as they don't see the demand and also feel there is not sufficient market information to guide product development and business modelling.



Distribution

Agriculture insurance products for smallholders in Rwanda are mainly distributed through financial institutions, non-governmental organisations, brokers and agents. Credit life is mainly distributed through SACCOs and MFIs while agricultural insurance is mainly distributed through brokers and agents. Unlike other microinsurance markets in Africa where Mobile Network Operators (MNOs) are widely used for distributing insurance, digital distribution of insurance remains untapped in Rwanda. Mobile penetration in Rwanda is considerably high and is driving other financial services. For instance, according to Finscope 2016, around 2.3 million adults in Rwanda use mobile money. There is an opportunity for insurers to use mobile platforms for administering low-cost insurance products.



Figure 5 Microinsurance coverage by distribution channel

The landscape study indicated that most of market players are increasingly becoming aware of how mobile technology can lower administration costs and enhance efficiency at various steps of the insurance value chain. Evidence elsewhere show that insurers are leveraging the high penetration of mobile phones to increase their scale and achieve improved efficiency in premium collection, product marketing and consumer education, claims management processes and general clients' relationship management thus reducing cost of delivering insurance to the underserved or unserved population segments.

Some insurers are taking the lead to broaden their distribution channels and leverage on Rwanda's efficient mobile phone infrastructure by exploring strategic distribution partnerships with relevant stakeholders. Although mobile microinsurance was the most talked about alternative channel during this landscape study, the market players identified a wide range of other possible alternative distribution channels that can accelerate the provision of microinsurance. These leverage on existing strong relationship with low income population; and include: cooperatives, associations and churches. The market players the household cooperative savings mechanism ("Ibimina") as a structure which is already used successfully by Mutuelle de Santé to increase participation. Special gathering such as nationwide monthly community work "Umuganda" and sport related gatherings and clubs were also mentioned. Supporting innovations in distribution still remains a key market facilitation priority and an integral part AFR's intervention framework for accelerating inclusive insurance in Rwanda.

Client value

Putting clients at the centre of product development, service delivery and business modeling inevitably requires market players to invest in know what clients really want. With insurance, the delivery of the promise of risk management is critical and the client value dimensions focuses on both ease of access and payout. Arguably, the value proportion of any microinsurance product should be the offer of a better risk management solution. According to International Labour Organisation's Impact Insurance Facility, to provide value to a client, a microinsurance product should be appropriate, accessible, affordable, simple and responsive to the risks faced by a low-income person. ILO summed this by developing a client value measurement tool, PACE, which has four measurement dimensions namely Product, Access, Cost and Experience. This assessment tool essentially compares microinsurance products with alternative coping mechanisms on a multidimensional level.

The microinsurance landscape study that senior executives in Rwanda appreciate both client value and its relation to the viability of microinsurance products. The study findings also highlighted the need for market demand studies to help market players understand clients' needs better and also introduce appropriate products. There is recognition that products that offer client value are not only crucial to microinsurance provider's viability but the creation of positive experience and image of insurance which is critical in instilling an insurance culture in Rwanda. However, most insurers are still struggling on how to achieve this.

One of the measurements of client value is claims ratio. However, relevant data for most of current microinsurance products was not provided by the active market players. Based on the available data, it was evident that there has been some viability challenges for agriculture insurance although the high claims ratios are a positive signal for client value.



In an infant microinsurance market like Rwanda, the impetus should be on promoting client value alongside business viability. Market players should be encouraged to incorporate client value assessment tools in their product development processes.

Industry Perspectives

The unanimous view by the senior executives in the insurance industry was that the insurance culture in Rwanda is very low. The majority of market players highlighted the lack of knowledge about insurance among low-income population and questioned their ability to afford appropriate insurance products. The industry seems have mixed views on the demand for microinsurance. However, most of the market players believe that they should play a key role in consumer education to increase awareness and foster insurance culture but noted that the cost of individual initiatives might be prohibitive. Therefore, working together for a common goal through the Rwanda association of insurers (ASSAR) seems to be a great opportunity; particularly in the design and implementation of a national consumer education programme. However, such investments must be accompanied by the availability of a variety of appropriate products on the Rwanda market.

Low and irregular income is one of the inherent characteristics of potential microinsurance clients and arguably this is likely to limit their capacity to pay for insurance products. However, there is evidence that insurance products can be made affordable and appropriate to the low-income consumers. This reinforces the importance of investing in research to understand the client needs and tailor products accordingly.



On the required market support functions, the market players believe that more could be done to support the microinsurance sector. Their views on the current status of support functions and systems are summarised below:



Figure 8 Perspectives on current market support systems

Availability of market information, investment capital and support from ASSAR seem to be the critical areas that the industry feel needs attention. The industry also seems to be unware of the presence of distribution channels that can effectively distribute microinsurance products. Despite the absence of local reinsurers, the industry does not see reinsurance as a barrier to engagement in microinsurance business. The industry acknowledged the efforts from the regulator in supporting the microinsurance sector including tax exemption on agriculture insurance products and the imminent Rwanda microinsurance regulations. However, they felt more support is required to accelerate the growth of the microinsurance sector. In addition, the study show that the industry feels the association of insurers (ASSAR) is not sufficiently strong yet.

On the potential and key growth drivers, the market players prioritised the following:

- Information technology systems specific for microinsurance,
- Consumer education, public awareness and other financial literacy efforts for consumers,
- Training programmes for insurance professionals on microinsurance product development and distribution,
- More or better distribution channels,
- Capacity building in microinsurance for ASSAR and other supporting institutions,
- Market demand studies to help insurers better understand client needs,
- Technical assistance to insurers on product development and distribution,
- Financial support to insurers interested in piloting microinsurance products
- Development of microinsurance regulations and
- Technical assistance for research and development or feasibility studies.

The industry highly prioritised the role of technology not only in improving the distribution but also on bringing efficiencies within in underwriting, claims management, reporting and overall microinsurance business management. The need for consumer education and capacity building remained a recurring theme during the study.

On capacity building requirements, pricing, marketing, distribution and the microinsurance business case and viability emerged as critical needs. The figure below summarises the prioritized needs.



Figure 9 Prioritised capacity building training needs

On technical assistance, the industry prioritised a number of aspects still inclined on technology applications and its role in addressing most of the administration and distribution challenges.



Figure 10 Prioritised technical assistance needs

Enabling Environment

Regulation

A favourable regulatory regime is crucial to the development of the inclusive insurance in Rwanda. It is therefore important to develop an appropriate legal and regulatory framework for microinsurance. The industry applauds BNR's effort and AFR's support in developing Microinsurance Regulations for Rwanda. The microinsurance regulatory framework is likely to address the some of the regulatory obstacles to the development of microinsurance such as product approvals, distribution and microinsurer licensing. In developing this, the BNR should consider other supply-side incentives that can encourage market players to enter the microinsurance space. The industry also identified other critical areas. The industry also highlighted other support areas that can create an enabling environment for microinsurance and these include:

- Lobbying for extending tax exemptions to all microinsurance products;
- Promoting and supporting consumer education;
- Promoting adoption of efficient and integrated systems by market players;
- Promoting capacity building within the industry; and
- Implementing initiatives to improve performance within the conventional insurance sector.

Growth opportunities

In light of current market and regulatory developments, there are a number of initiatives that can potential accelerate the development of an inclusive insurance market in Rwanda and include:

- Effective consumer education: Unlike other financial products, insurance is a financial product that is not easily understood especially among low-income consumers. In a market with low insurance culture, a targeted insurance education program can have a tremendous impact. Consumer education equips customers with knowledge and skills to make informed decisions on their risk management options that can potentially increase demand for microinsurance products. However, investments in consumer education without appropriate insurance products on the market are unlikely to yield the desired results. ASSAR is well placed to undertake consumer education initiatives given sentiments from the industry that individual investments in consumer education are costly.
- Innovation and capacity building support: Evidently, majority of the insurers with a strong will still require exposure and capacity building on innovative product design and delivery. A typical innovation challenge fund would certainly not yield desired results given the current level of exposure, expertise and experience in microinsurance among market players. AFR's recently approved innovation cycle which focuses on customer centricity also leverages the strong will of some active market players by supporting through the entire product development seems to be very appropriate for Rwanda. This approach is likely to yield more traction.
- **Technology:** The current distribution of insurance in Rwanda has not yet extensively leveraged technology in the insurance value chains. There is notable growing interest by insurers to take advantage of technology for insurance distribution and cost- efficiency in administration of low-cost insurance policies.
- Leveraging informal finance mechanisms: Insurers can also link into the informal finance mechanisms such as savings groups to distribute insurance; building on the success and lessons from community health insurance.
- Government support: The Government of Rwanda has demonstrated its commitment to supporting initiatives aimed at improving the welfare of low-income households and individuals through improved risk management. The highly-recognized Community Health Insurance scheme and new National Agricultural Insurance scheme are examples of initiatives that will drastically change the landscape of microinsurance in Rwanda.



Insurance, if well designed and distributed offers a better risk management tool for people in Rwanda regardless of their income level.





www.afr.rw

© 2017 Access to Finance Rwanda KG 5 Avenue House #15- Kacyiru the road behind the Netherland Embassy P.O Box 1599 Kigali – Rwanda Email: info@afr.rw

