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**FINCA®**



# **Feasibility Study and Business Case for Micro-Insurance in Tanzania**

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**Conducted by Stonestep GmbH for  
FINCA International Holdings and the  
Swiss Capacity-Building Facility (SCBF)**

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## Foreword

This Feasibility Study and Business Case was prepared in partnership with FINCA International to assist in their analysis of the micro-insurance market in Tanzania with the goal of reforming or starting a new micro-insurance entity. The report includes relevant information on market demand, distribution options, qualitative customer interviews, and product strategies which all informed the development of a Business Case. Study emphasis was placed on alternative distribution options as well as utilizing existing assets within the Finca organization.

Stonestep GmbH wants to thank the Swiss Capacity Building Facility (SCBF) for its financial and technical contribution to this study.

## Executive Summary

The Tanzania Micro-insurance Feasibility and Business Case are developed in partnership between FINCA International and Stonestep GmbH with financial and technical support provided by SCBF. The purpose of the feasibility study was to provide a fact-based blueprint for the design and implementation of a new micro-insurance opportunity either as integrated within FINCA Tanzania operations, as a new wholly owned subsidiary of FINCA Microfinance Holdings (FMH), or as a new jointly owned venture together with Stonestep or another partner to extend the benefits of micro-insurance at scale to the low income segment in Tanzania. Goals of the study include finding ways to improve retention/loyalty, increase access to new customers, and margin enhancement. The study evaluated the Tanzanian micro-insurance market including existing and projected market conditions, supply and demand of the target market, distribution channels, product strategies, and qualitative customer interviews. At the conclusion a recommendation was made in the form of a business case for FINCA to pursue in Tanzania, with regional and global replication potential.

Tanzania has an estimated population of 47.7 million with an expected increase to 70 million by 2025. Two-thirds (66.2%) of the population live in rural areas and agriculture is the second largest contributor to the GDP in Tanzania. The economy is driven by informal employment with only 4.5% of adults reporting the formal sector as their main source of income. The World Bank 2011 reports that 68% of the population live below the international absolute poverty line of \$1.25 a day; however, the Tanzanian economy has shown steady growth over the past decade, with projected GDP growth of 7% per annum through 2017. Financial inclusion is also growing at a staggering rate due to the influence of mobile penetration (63% of adults) and mobile money (44% of adults). Currently Tanzania ranks as one of the highest proportion of people using non-bank formal financial services and it is on track to overtake Kenya as the world's largest mobile money market. These are positive indicators of a growing middle class, increased consumer spending, and in turn opportunities for insurance.

Among the Tanzanian population there remains a general lack of trust in insurance, although understanding and awareness of its value is increasing. The Feasibility Study found burdensome and inadequate coping mechanisms, such as borrowing money or selling assets in lieu of insurance, common practice. Through industry interviews, focus groups, and literature review we discovered strong latent demand for insurance. Common risks include death of the breadwinner, health/medical needs, agriculture (e.g. drought, disease), and impacts to domestic and business property (e.g. flood/fire).

Insurance penetration has increased from 6% in 2009 to nearly 19% in 2012 mostly as a consequence of embedded products (e.g. credit-life), loyalty products provided by mobile network operators (MNO), and "Freemiums" whereby a product is offered for free with voluntary payment to increase cover. Selling voluntary insurance is the ultimate goal whereby the consumer makes a choice to buy rather than an automatic addition to a product or service. Currently voluntary uptake of insurance is not standard in Tanzania but focus groups indicate with the right value proposition they are willing to pay for it. Affordability and timing of premium payments was highlighted as a factor limiting voluntary insurance uptake. Consumer groups suggested a strong willingness to pay for insurance if premiums were paid in installments opposed to one-time annual premiums common in the market. It is this concept that later defined the business case proposition: insurance premium financing.

Micro-insurance is driven by large volumes of very small premiums; therefore in order for programs to be effective they must have effective distribution platforms. Most existing micro-insurance products are offered through mobile network operators (MNOs) and financial service providers such as banks and MFIs including FINCA which has active credit-life and deposit savings products. Agriculture insurance, although in high demand, remains largely absent in the market with only a handful of pilot programs active. Due to the increase in mobile penetration and financial access, as well as strong government support for micro-insurance market development, new distribution channels and products are likely to continue to be introduced in the near future, particularly in the wake of bancassurance growth.

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# **1. Purpose and Methodology**

## **1.1 Definition of Micro-insurance**

### **International Sources**

The International Association of Insurance Supervisors (IAIS) has defined “micro-insurance” as insurance that is accessed by low-income populations. Micro-insurance is provided by a variety of different entities, but run in accordance with generally accepted insurance practices, including the IAIS Insurance Core Principles. The risk insured under a micro-insurance policy is managed based on these principles and funded by premiums. (IAIS 2012).

Another definition provided by the Micro-insurance Network states micro-insurance typically refers to “adapting insurance services mainly to clients with low income and no access to mainstream insurance services. More precisely, micro-insurance is a means of protecting low income households against specific risks in exchange for a regular payment of premiums whose amount is proportional to the likelihood and cost of the relevant risk.”

### **Tanzanian Sources**

Since the establishment of the Tanzania Insurance Regulatory Authority (TIRA) under the 2009 Insurance Act, TIRA has been actively promoting the development of the micro-insurance industry in Tanzania. TIRA hosted the annual Micro-insurance Network meeting in 2012 and most recently the Micro-insurance Workshop in March 2014 to discuss the new Draft Micro-Insurance Regulations and current state of the market. The new regulations were influenced by the five pillars of the micro-insurance strategy: 1) fair, 2) customer centric, 3) innovative, 4) participative, and 5) sound (Micro-insurance Workshop 2014). The regulations define micro-insurance as insurance that is accessed by a low-income population by which risk is insured under a policy based on insurance, insurance principles and funded by premiums (Appendix 1, Micro-Insurance Regulations, 2013). In addition, the regulations state micro-insurance business shall provide:

- risk pooling instruments for the protection of low-income households;
- products which are available, accessible and affordable to low income households;
- insurance with small benefits;
- insurance involving low levels of premiums; and
- insurance for persons working in the informal sector or economy.

### **Working definition for this study**

What we learn from the international and national sources is that the primary difference between insurance and micro-insurance lies in the target market. Micro-insurance is designed specifically for low-income and informally employed people who have previously been overlooked by other mainstream insurance schemes, have not had access to insurance products, or have altogether been uninformed of what insurance is and how it can help them. The prefix “micro” refers to the much smaller premium, in comparison with a regular insurance policy, required of the client, in exchange for a much smaller compensation. Because of this, micro-insurance products offered also differ

from the standard insurance products in the size of premium, coverage limits, product features, distribution, policy administration and target customers. For purposes of this study in Tanzania, the definition of micro-insurance will be fairly liberal and all-encompassing since the majority of the population is low-income, underserved and underinsured.

## **1.2 Purpose of Feasibility Study**

The purpose of the feasibility study is to provide a fact-based blueprint for the design and implementation of a new micro-insurance opportunity either as integrated within FINCA Tanzania operations, as a new wholly owned subsidiary of FINCA Microfinance Holdings (FMH), or as a new jointly owned venture together with Stonestep or another partner to extend the benefits of micro-insurance at scale to the low income segment in Tanzania. A secondary outcome of the study is to set the stage for a broader regional or even global approach for FINCA to expand or possibly reform micro-insurance in markets where they are active in order capture efficiencies of scale, administrative services and other functions etc.

## **1.3 Objectives of Feasibility Study**

The objectives of the feasibility study are to research a broad range of issues, each of which has a direct relevance to the potential scale, feasibility and design of a new insurance venture in Tanzania. Understanding the target market, demand and supply aspects in the market, and identifying existing and potential distribution channels as well as relevant products will be examined throughout the report. Specifically, the study researches and recommends an approach to:

- Improve and accelerate a micro-insurance proposition for the target customer segment(s).
- Sustainably fill a missing market need, such as premium financing.
- Effectively link, leverage, or otherwise access existing assets in Tanzania, including FINCA's existing micro-insurance programs.
- Access additional distribution channels such as mobile phones, retail, health and other alternative delivery channels for provision of micro-insurance to the target market.
- Prepare a business case that outlines an effective strategy to increase micro-insurance uptake in Tanzania.
- Consider opportunities for global replication.

## **1.4 Methodology**

Our methodology included analysis of various literature, market and industry interviews, FINCA interviews, first-hand observations and fact-finding on-the-ground in Tanzania as well as knowledge and expertise of micro-insurance from other markets for potential replication in Tanzania.

### **1.4.1 Desktop Market Analysis**

The first phase of the project was a desktop market analysis of the current state of the micro-insurance market in Tanzania. The analysis considered the country context, demographics, economy, regulatory environment, micro-insurance market, supply lines, and existing distribution channels. Available literature was reviewed including the 2012 Tanzania Access to Insurance

Diagnostic, FinScope 2009 and 2013 Country findings, TIRA Insurance Act 2009, Draft Micro-Insurance Regulations 2013, TIRA 2012 Annual Report and other relevant literature.

### **1.4.2 Distribution Options**

The distribution phase explored existing and potential distribution options for micro-insurance in Tanzania. Research took place in the greater Dar es Salaam urban area in spring 2014 and targeted alternative distribution channels including: financial service providers, telecoms, agriculture value chains, retail, and NGOs/Foundations to gain a better understanding of different distribution channels in the market. This included desktop analysis, interviews and mystery shopping to understand how people exchange information, observe where commerce is conducted, and experience day to day life.

### **1.4.3 Qualitative Customer Interviews**

Following the distribution phase, we performed qualitative focus group discussions (FGD) to understand the risks perceived, concerns and needs of urban and rural populations in Tanzania. Four focus group discussions were conducted in July 2014 with existing FINCA clients in both urban Dar es Salaam and rural Morogoro. Small groups of 4+ participants were gathered and an interactive discussion was led by a moderator to understand participant's views and perceptions about their experience of risk (severity of different risks), their perception and interaction with insurance, and their willingness to buy insurance. Through interactive discussion, the FGD provided a level of qualitative insights required to understand perceptions and the motivation behind behavior. The qualitative information was used to compliment other data.

### **1.4.4 Product Strategy**

The product strategy phase comprised of a visit from Stonestep's senior capacity builder to conduct interviews with relevant stakeholders, service providers, industry associations and insurers. Other service providers including brokers, call center, and health services were also interviewed (see Appendix 2, Meeting list). At the conclusion of the interviews, Stonestep's actuary, product specialist and senior expert visited Tanzania to explore opportunities to optimize or reform FINCA's global micro-insurance portfolio. The information gained during interviews provided a local lens to look through when considering the product mix, in turn giving ideas to explore in greater detail during the business case. Administrative options required for the proposed entity were also explored including insourcing at FINCA (locally or in a Hub), outsourcing to an intermediary, or implementing a hybrid approach.

### **1.4.5 Business Case**

Information and observations gathered in earlier phases were used to develop a strategy for the business case. We focused on market gaps identified during stakeholder interviews, different distribution channels and product options analysed as well as qualitative data collected during the focus groups to devise a recommendation. While the business case focused on near-term opportunities in Tanzania it also considered opportunities for regional opportunities with potential implications for FINCA globally.

## 2. Market Analysis

### 2.1 Tanzania Country Context

The East African nation of Tanzania was formed in 1964 as a union of the mainland territory of Tanganyika and the island of Zanzibar. It is bordered by Burundi, Kenya, Malawi, Mozambique, Rwanda, Uganda, Zambia, and the Democratic republic of Congo. Administratively, Tanzania is divided into 30 regions with twenty-five on the mainland, three on Unguja (known informally as Zanzibar Island), and two on Pemba Island.

#### 2.1.1 Demographics

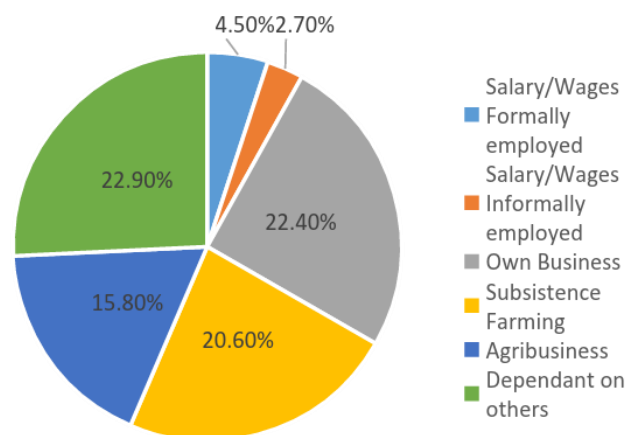
Tanzania has a total population of an estimated 47.7 million with an expected increase to 70 million by 2025 (World Bank 2012). Women outnumber men in the country and the largest adult age group is between the ages of 21-30 with roughly half the population under 16 (FinScope Tanzania 2013). Two-thirds (66.2%) of the population live in rural areas rather than cities, despite a nearly 6% urbanization rate from 2009-2013 (FinScope 2013). Rural areas are defined by Tanzanian national statistical offices and are calculated as the difference between total population and urban population.

Agriculture is the second largest driver of GDP in Tanzania (services is #1 at ~47.4%) contributing 26.8% of the GDP, employing 80% of the adult workforce and accounting for 85% of all exports (2014 CIA World Factbook). The majority of agriculture is subsistence and small shareholder farming with correspondingly high levels of poverty. Only 4.5% of adults report the formal sector as their main source of income and nearly a quarter of the population is dependent on others for their main source of income (Figure 1). With a largely rural, agrarian population, Tanzania has a professional skills deficit with two-thirds of adults educated to a primary level. This number is virtually unchanged since the FinScope survey in 2006 (FinScope 2013).

An interesting observation from the FinScope 2013 findings is when compared against fourteen other

African countries, Tanzania ranks as one of the highest proportion of people using non-bank formal financial services, largely because of the influence of mobile money. If mobile money was excluded, access to formal financial services would drop significantly making Tanzania one of the lowest in the group. In addition, Figure 2 below shows that nearly 40% of people living in rural and urban populations are within 5km of financial services like bank branches, ATM, MFI, SACCOs, or mobile money agent (FinScope 2013, Appendix 3, Distance from Access Points). In addition, Appendix 4 provides a regional comparison where FINCA Tanzania has active branches of the number of financial access points from 2012-13.

Figure 1: Main Sources of Income



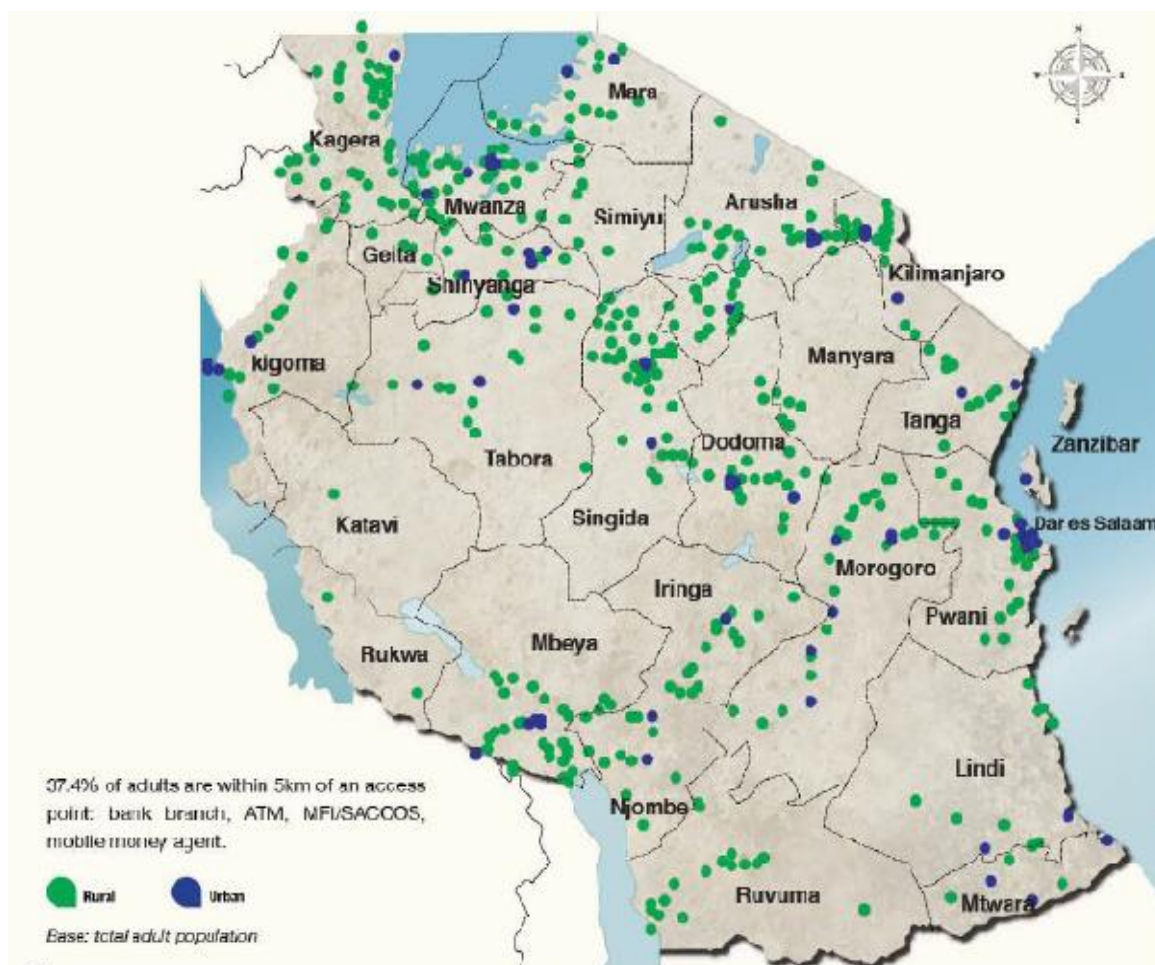


Figure 2: Access to financial services within 5km of urban/rural population centers (FinScope 2013)

## 2.1.2 Macro and socioeconomic context

The Tanzanian economy has shown steady growth over the past decade, exhibited by a GDP growth of 5-8% every year since 2000 and projected GDP growth of 7% per annum through 2017. The country embraced an open market economy in the late 1990's to attract and retain domestic and foreign investments, although the government maintains involvement in many sectors including energy, mining, banking and telecommunications (CIA 2014). Despite steady economic growth, Tanzania remains one of the poorest countries in the world. The government budget relies largely on donor funding (30%) and inflation has fluctuated from 6-20% since 2011, and presently is 6.4%. Current interest rates are 12%. The average annual per capita GDP is estimated at \$1,700 USD, though this number is likely much lower in rural areas (Stakeholder Interviews 2014). The World

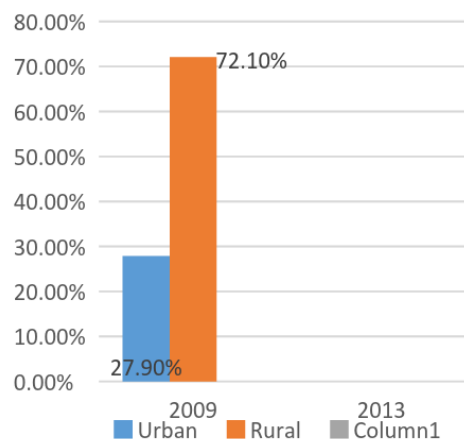


Bank 2011 reports that 68% of the population live below the international absolute poverty line of \$1.25 a day, the majority of whom live in rural areas (Figure 3).

There is limited infrastructure development throughout the country with 10.6% of the Tanzanian population having access to electricity and 7% of people have access to piped water. Road infrastructure is extremely underdeveloped with road density of 47 km per 100 km of land (a middle income country has a road density of 507 km per 100 km of land). As depicted in Figure 3, the majority of the population live in rural parts of the country.

The good news is foreign investment in mining, oil & gas, agriculture and other exports as well as infrastructure development should have a positive impact on the economy. In addition, the Tanzanian government has made alleviation of poverty a main priority and both financial inclusion and micro-insurance are critical in reaching its goals.

Figure 3: Urban vs. Rural Population Divide



### 2.1.3 Growth Sectors in the Market

#### Telecoms

Tanzania has the second largest telecoms market in East Africa and telecoms remains the fastest growing sector in recent years (ICLG: Telecoms, Media and Internet 2014). From teledensity of 1% in 2001, Tanzania now boasts 63% mobile penetration and rising. Mobile money use has also been phenomenal with 44% of adults using some form of mobile money in 2013—ahead of Kenya’s 38%. At its current rate, Tanzania is on track to overtake Kenya as the world’s largest mobile money market (Di Castri and Gidvani, 2014). This is all the more impressive when considered that only 14% of Tanzanian adults use banks (Mirani, QZ.com, 2014). This trend is expected to continue with mobile penetration, mobile money, and other value added services like financial and insurance projected to increase over the next 5 years.

#### Financial Services

Financial inclusion has increased significantly as a result of mobile penetration and mobile financial services. Mobile financial services however are categorized in the non-traditional financial services sector. The traditional financial services sector like banks, MFIs, SACCOS and other informal systems have remained relatively unchanged since 2009, although many of them are implementing innovative financial products to attract and retain customers, as well as forming strategic partnerships with technology providers like MNOs. As financial services become more common and the population begins to use more advanced financial services, the insurance sector will continue to show steady growth.

#### Agriculture

Agriculture remains one of the largest contributors to GDP and one of the most important industries in Tanzania, providing livelihood to 80% of Tanzanians. Most farms however are subsistence and small-holder farms, and remain excluded from financial and insurance services. Agricultural associations, Agri-processors and other services along the agricultural value-chain provide

opportunities to reach scale and achieve volume, critical to any successful micro-insurance program. Implementing innovative product design and partnerships will be key to unlocking the vast agricultural market for insurance.

### **Retail**

The retail sector, like supermarkets, gas stations and electronics stores will continue to show growth as consumer demand and spending increase, particularly in urban areas. A challenge is the lack of consumer credit in the marketplace, curbing the rate of growth. Once consumer credit becomes more available in Tanzania we project there will be opportunities for insurance uptake.

### **Mining/Energy**

Tanzania enjoys some of the finest natural resources in the world and arguably is best known for its parks and wildlife, but Tanzania also boasts significant mining and oil & gas potential. Gold and other metals continue to be a large export commodities, but it is the exploration of oil and gas fields on and offshore, including the deep-sea deposits projected to be in production in the next five years that could have positive implications on the economy, middle-class development and insurance.

### **Infrastructure Development**

In a country with fairly limited infrastructure development including inadequate grid-connected electricity, limited running water and unreliable roads, investment is needed to keep up with the 32% projected population growth over the next decade. International and national commitments to improving the electric grid in sub-Saharan Africa as well as new infrastructure development like new building construction on the back of mining and energy investments will continue to be growth sectors in the country.

## **2.2 Regulatory Environment**

### **2.2.1 Tanzania Insurance Regulatory Authority (TIRA) Background**

The Tanzanian Insurance Act of 2009 was enacted to encompass any legislation, guidelines or policies that help define the laws, practices and products that surround the insurance market. Out of the Act the TIRA was established to serve as the independent regulatory authority of the insurance industry of Tanzania. TIRA produces periodic reports, the latest annual report publically available being in 2012, with its mission to develop and promote an insurance market for all policy holders and promote insurance expansion by encouraging new entry and not creating any absolute barriers. The 2009 Act loosely defined the requirements for micro-insurance, and in 2013 TIRA in consultation with industry stakeholder drafted the Micro-Insurance Regulations to better define and quantify the micro-insurance market in Tanzania. These regulations were released in March 2014 and are currently under review by the Micro-Insurance Technical Working Group which includes government, insurers, brokers, micro-insurance intermediaries, NGOs (FSDT) etc. The new regulations are expected to be finalized in the fall of 2014.

### **2.2.2 Principles and Objectives of Draft Micro-Insurance Regulations, 2013.**

#### **Principles**

1. Micro-insurance shall be funded by premiums relating to the risks and benefits that are paid out of a pool of funds that is managed based on insurance and risk principles.
2. For the purpose of sub-regulation, micro-insurance businesses shall provide:
  - risks pooling instruments for the protection of low-income households;
  - products which are available, accessible and affordable to low income households;
  - insurance with small benefits;
  - insurance involving low levels of premiums; and
  - insurance for persons working in the informal sector or economy.

#### **Objectives of Micro-Insurance Regulations:**

1. Develop a micro-insurance policy and promote its implementation;
2. Facilitate the availability of key information or statistical data on micro-insurance business;
3. Promote learning processes and dialogue among relevant sectoral stakeholders;
4. Promote consumer education and raise awareness to instill an insurance culture
5. among low-income households;
6. Enact clear laws and regulations in accordance with internationally accepted standards that encourage insurance coverage for low-income households and its compliance while limiting regulatory arbitrage;
7. Contribute to the policy dialogue with government so that social insurance schemes are working in conjunction with micro-insurance;
8. Develop clear policies for enhancing access to financial services with a view to eradicating poverty; and



9. Limit moral hazard and fraud by promoting awareness, and putting in place controls and incentive systems.

### 2.2.3 Summary of Draft Micro-Insurance Regulations, 2013

The new micro-insurance regulations are meant to update the 2009 Insurance Act to better facilitate an inclusive insurance market in Tanzania. Some of the key features of the 2013 Micro-Insurance Regulations are described below with analysis of each provisions impacts to market development in italics. The full draft regulations can be found as Appendix 1. One provision with implications to market development is insurers are prohibited from bundling long-term and general insurance together in attempts to better clarify rules and standards as well as demarcate products for tracking purposes. To date the Commissioner has permitted bundling of funeral insurance with general insurance, which has proven to be an effective strategy for micro-insurance market development. A second provision requires all micro-insurance products to be distributed by a licensed micro-insurance agent, creating an additional intermediary and reducing flexibility in distribution options.

#### Key Features of the new regulations:

- All micro-insurance products must be submitted to TIRA for approval by the Commissioner.
  - *This is unchanged from the 2009 regulations. The Regulations permit broad discretionary powers to the Commissioner to approve products. Discretion is meant as an inclusion-friendly tool, however it can also create uncertainty if rules do not apply evenly (FSDT 2012).*
- All micro-insurance products must fall within two categories: general and long-term.
  - general micro-insurance means any contract covering belongings, such as, hut, livestock, fishing gear, agricultural products, small business tools or instruments or any personal accident, either on individual or group basis;
    - *The 2009 ACT permitted funeral cover to be included under general insurance on a discretionary basis. We believe the Commissioner reserves this right in the Micro-Insurance Regulations, but it is unclear whether funeral cover will still be permitted in practicality under the general insurance category.*
  - life micro-insurance product means any contract with or without return of premium, an endowment insurance contract or health insurance contract, education, credit life, group life, family life, funeral insurance contract, with or without an accident benefit rider or accidental death only covers either on individual or group basis;
    - *The new regulations prohibit bundling life and general products. This has potentially huge implications and undermines many of the innovative product packages currently offered in the market place (e.g. Life + property cover)*
- Insurers offering micro-insurance can sell only one of the above types (not both).
  - *As mentioned, requiring a clear demarcation between life and non-life micro-insurance policies creates inflexibility and effectively prohibits bundled policies, which have been very effective in existing micro-insurance schemes, such as FINCA's credit life product which offers funeral cover as well as property cover. In addition the inability to bundle may undermine the incentive for insurers to write products under the micro-insurance definition.*
- Presently agents can represent up to 3 different insurers for both general and life categories.

- *This is not included in the Draft Regulations but was described by Commissioner Kamuzora during the micro-insurance workshop held in Dar es Salaam, March 2014.*
- Micro-insurance products shall only be distributed through licensed micro-insurance agents. A micro-insurance agent means an individual person or Company or a Non-Government Organisation (NGO), a Self-Help Group (SHG) or a Micro-Finance Institution (MFI), who is appointed by insurance registrant to act as a micro-insurance agent for distribution of micro-insurance products.
  - *FINCA may apply for and operate under one micro-insurance agency license and be able to train its staff to distribute insurance under the license. This has potential implications to FINCA's existing business since it currently uses Microensure as a broker and intermediary. FINCA can still conduct business with Microensure with little impact to its existing operations, although an agency license will also be required, which has some cost implications. On the other hand, the agency license will permit FINCA to distribute micro-insurance products directly for an insurer, effectively cutting out the need for a broker intermediary.*
- A micro-insurance agent shall enter into an agreement with an insurer which shall clearly specify the terms and conditions including the duties and responsibilities of both the agent and the insurer.
  - *FINCA can distribute micro-insurance products directly on the behalf of an insurer. This presents a good opportunity to partner with insurers to distribute new products in Tanzania, using in-house resources as well as insurer resources to administer the products.*
- New minimum micro-insurance agent qualifications have been proposed. For FINCA to secure a license it must license one agent as a representative of the institution. The Agent must have received an Ordinary Secondary Education Certificate with at least three passes including one in the English language and or holder of a Certificate of Proficiency in Insurance. They also must be 18 years of age, a citizen and resident of Tanzania with no convictions for dishonesty or bankruptcy. The minimum amount of money to be maintained by a micro-insurance agent shall be Tsh500,000 (this is reduced from 2009 regulations perhaps in attempts to increase the number of agents). In addition, penalties have been reduced from Tsh5,000,000 to Tsh1,000,000, which are ineffective for a larger corporate agent like FINCA.
  - *In order to receive the agency license an agent must complete six weeks of training. Currently training is conducted on a rolling basis among five training centers in Dar es Salaam, Mwanza, Zanzibar, Mbeya, and Arusha. Each session can train up to 1,000 people at a time, take six weeks and is said to cost approximately USD\$500/trainee. Presently the Insurance Institute of Tanzania conducts the training. The cost and timing for the training are onerous and some aggregators may find them prohibitive.*
- Every insurer carrying on micro-insurance business shall be required to train at insurer's expense all designated officers carrying on day to day operations of micro-insurance business.

- *This provision was highlighted in a Stakeholder interview with a large insurer concerned about the prohibitive cost of training. However, the new regulations do not explicitly say each officer is required to secure an agency license at a cost of \$500/trainee; rather, the level and extent of training is up to the insurer.*
- All micro-insurance products intended to be under-written shall require prior authorization by the Commissioner and shall bear the words: “micro-insurance product”.
  - *As mentioned above, broad discretionary powers by the Commissioner can provide flexibility but also create uncertainty and an uneven playing field.*
- All micro-insurance products must be offered in English and Swahili and be easily understood.
- Every insurer shall settle a micro-insurance claim within a period of three working days from the receipt of the claim. Receipt of claim shall begin on the day next to the date on which a policy holder completed submission of all required documents. A 5-day extension may be granted by the Commissioner providing a maximum of 8 working days for claims settlement.
  - *The 2009 Act permitted 45 days. The new regulations are meant to facilitate speedy claims settlement and set an ambitious target of three days. The three day requirement was first announced during the Micro-Insurance workshop to the surprise of even the Technical Working Group. Generally stakeholder’s agree with quick claims settlement but have some concern over the short timeframe (other markets are longer) (Stakeholder Interview 2014). That said it is important to note that the requirement is three days once the policy holder completes submission of **ALL** of the required documents.*

## **2.3 Insurance sector**

### **2.3.1 Tanzania insurance market overview**

The Tanzania insurance industry has shown steady growth of 18% since 2009, nearly three times that of the national GDP (TIRA 2012). Growth is largely due to the introduction of new foreign insurers which has resulted in increased competition from a large number of small insurers, driving premiums and potentially creating solvency concerns (FSDT 2012). The total number of insurers have increased from 18 in 2008 to 29 in 2014, including one Tanzania reinsurance company (TIRA 2012, Stakeholder Interviews 2014).

Insurance penetration has increased from 6% in 2009 to nearly 19% in 2012 mostly as a consequence of the rise of embedded products in loans or deposit accounts with financial institutions (e.g. credit-life) and loyalty products by mobile network operators (MNO) meant to increase customer loyalty and reduce churn. In addition, the introduction of Freemium products, where a product is initially offered for free with voluntary payment to increase cover have been successful tools to increase insurance penetration and awareness (FSDT 2012).

Voluntary uptake of insurance generally remains low, although there are some indications that Tanzanians are willing to pay additional premium to increase their level of cover if the perceived value matches the benefit. This can be seen through the popular life and hospital cash product by TIGO BIMA which converted customers from a Freemium model to voluntary with nearly a 60% conversion rate (Stakeholder Interviews 2014). Market research shows that health is the most demanded product and agriculture is also in high demand even though neither are standard in the low-end market aside from some community-based health programs (e.g. PharmAccess KNCU Health plan) and some pilots in agriculture insurance (weather and yield index products) (FSDT 2012). Other priorities of lower-income Tanzanians are education and savings (Stakeholder Interviews 2014).

General insurance continues to dominate the market accounting for 90% of premiums with motor insurance (32%), fire (20%), health (17%), accident (12%) and general insurance (3%) (agriculture insurance is included in the general category) (TIRA 2012). Most insurers and brokers interviewed focus on the traditional corporate and high-end market, although they all expressed strong interest in accessing and integrating products into the low-income market. Some of the challenges discussed were lack of documentation among the rural/lower income, a general lack of trust, awareness, and perceived value in insurance, and the challenges of collecting premiums and paying claims efficiently. In addition, all of the insurers interviewed agreed the largest challenge to market development was the ability to achieve volume and scale economically (Stakeholder Interviews 2014).

To date, the majority of micro-insurance products in the market are written by long-term insurers, although there are some exceptions including the MNO loyalty products and personal accident and property products embedded with long-term products. The changing Micro-Insurance Regulations may impact the ability to bundle life and general products with uncertain consequences.

Product and distribution innovation has been largely driven by brokers representing nearly 80% of all insurance sales, with 60% of the business sold through the top 10 brokers in the market (Stakeholder Interviews 2014). There are total of 262 registered agents, 79 brokers, and 39 loss

adjustors/assessors as of December 31<sup>st</sup>, 2012. Financial institutions and mobile network operators also play a large role in distribution of micro-insurance.

The following graphics provide relevant information from the 2012 TIRA Annual Report:

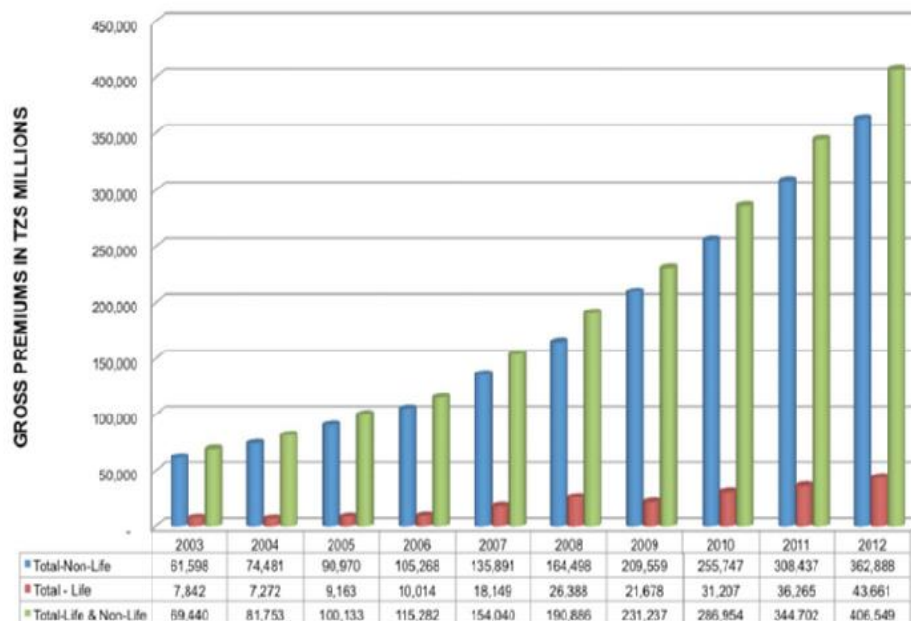


Figure 4: 2003-2012 Trends of Volumes of Gross Premiums written by insurance companies in Tanzania (in TZS millions) (TIRA 2012)

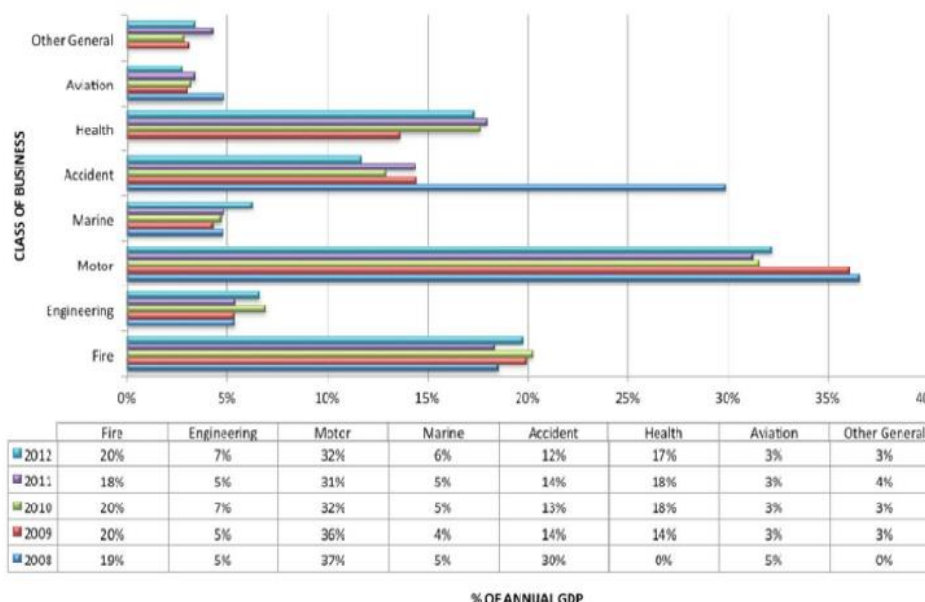


Figure 5: 2008-2012 Trends of General Insurance business portfolio mix in Tanzania insurance industry (TIRA 2012)

### **2.3.2 List of Micro-insurance Providers in the Tanzanian Market**

There are only a handful of commercial insurers underwriting micro-insurance in Tanzania. There are five life insurers in Tanzania with three of them active in micro-insurance: Alliance, African Life, and NIC. Insurers actively growing in the market are Metropolitan Life, MO Insurance (formerly Golden Crescent), MGEN Life, UAP (Kilimo Salama), ICEA Lion General Insurance, and Heritage Insurance. AIG secured an insurance license in 2012, although they currently are fronted by Heritage whom also represents Zurich and Alliance (Stakeholder Interviews 2014). To date, micro-insurance product focus has been on long-term assurance like credit life (and enhanced credit life), life, funeral, and accident as well as some bundled property coverage (flood, fire). As of the date of this study we are aware of one agriculture insurer underwriting pilot agriculture/weather products: MGEN Tanzania. FINCA in partnership with Microensure and APA Insurance piloted an agriculture weather index in 2013/2014, but it was cancelled in spring 2014 due to limited participation, complex market conditions and confusing product information. There are two other agriculture pilots in development by Kilimo Salama. In Kenya, UAP was the underwriter for Kilimo Salama's projects and they may also do so in Tanzania (Stakeholder Interview 2014). Swiss Re and FMRE in Zimbabwe are providing reinsurance for the two active agriculture pilots.



**Table 2: List of Insurance companies providing Micro-insurance in Tanzania**  
\*Microensure was not included since it serves as an broker/intermediary

<u>Insurers</u>	<u>Products</u>	<u>Clients</u>
<b><u>Long-term (Life/Funeral)</u></b>		
1. African Life	Credit-life w/ funeral benefit; funeral w/ accident benefit; standalone life and funeral, deposit life insurance, travel insurance	NMB, CRDB, FINCA, Ndege broker (voluntary travel insurance)
2. Alliance Life	Bundled Credit Life w/ property cover (flood/fire)	PRIDE
3. MO Insurance	Credit-life bundled w/ hospital cash, and sometimes property cover (fire, flood)	TIGO BIMA, FINCA (confirm)
4. Jubilee (typically a general insurer, the current regulations permit them to underwrite funeral cover	Death, disability, critical illness and funeral cover.	Association of Tanzania Drivers distributes to bus drivers
5. NIC	Personal Accident	Bajaji drivers and passengers (voluntary). <i>There is also a compulsory personal accident cover that provides cover for up to 3 passengers (driver not covered). The cost is Tsh120,000 per year (Stakeholder Interviews 2014)</i>
6. Metropolitan Life ( <i>new to the market</i> )	Life bundled w/ hospital cash	N/A. They may launch with Airtel Money (Stakeholder Interview 2014)

## Health

7. NHIF (National Health Insurance Fund)	In/out patient	Civil servants (compulsory membership), students and pensioners
8. NSSF (National Social Security Fund)	In/out patient	Employees and dependents, compulsory
9. Community Health Funds (CHF)	Public primary healthcare & some hospital services	State Scheme, voluntary
10. Metropolitan Life	Health services (Hello Dr.)	Pending launch

## Agriculture

11. APA Insurance	Agriculture: Cotton weather index	FINCA, Microensure
12. MGEN Tanzania	Agriculture: Yield based index (sunflower)	Dodoma Agriculture
13. UAP	Agriculture: TBD	Kilimo Salama (Pilot project – 2 locations, pending development and launch)

## Informal

14. In-house SCCULT	Credit Life	SCCULT (SACCOS)
15. In-house Fanikiwa	Credit Life	Fanikiwa
16. In-house Postal Bank of Tanzania - self-insurance	Credit Life	Postal employees

## Reinsurer (Agriculture)

17. Swiss Re	Agriculture: cotton weather index	FINCA (Cancelled)
18. FMRE (Zimbabwe) –	Agriculture: yield-based pilot	Dodoma Agriculture



### **2.3.3 Micro-insurance products in the Tanzanian market**

Micro-insurance products provide risk protection against life and non-life perils for the low-income population (IAIS 2012). Popular global trends in micro-insurance products include variations of health, agriculture (weather, yield), livestock, property, personal accident, group policies, life (and funeral), and credit life. Products are designed and priced to be proportionate to the likelihood and cost of the risks involved. Basic features of micro-insurance products are:

- relatively low premiums;
- defined and limited cover;
- short policy terms to limit risk;
- few, if any, exclusions;
- preference for group underwriting;
- simple and rapid claims processing while still controlling for fraud.

In Tanzania, credit life has been by far the most profitable and popular product and many financial institutions, including FINCA, have embedded credit life products compulsory with their loan products. Common features of credit life products are that the outstanding loan balance is paid on death or permanent disability of the borrower. Some credit-life products offer enhanced features and benefits like bundled funeral coverage, disability coverage, payment for involuntary loss of employment and property damage (flood/fire).

Other products in the market include limited health plans, hospital cash, property insurance, funeral, accident and MNO loyalty products. Agriculture insurance is not yet a standard offer although there are at least four pilots, one of which was cancelled, that we are aware of. Other products recently launched include savings/deposit insurance with African Life, Microensure and FINCA in the spring 2014.

Embedded products remain the norm and are predicted to continue to be the most popular in Tanzania in the near future (Stakeholder interview, 2014). Embedded products, such as credit-life are compulsory with savings and loans, frequently with the cost of the premium built into the product or a small premium charged on top of the normal fees. One risk of embedded products is they do not necessarily lead to customer understanding or awareness of the product and features and the risk of a negative experience is heightened when they have a negative claims experience.

Other popular micro-insurance models are the “no additional charge” or “Freemiums” whereby a product or service is offered for free to increase value and loyalty to a provider like MNOs. The basic level of service is free in the expectation that some customers will voluntarily upgrade to a more premium service to increase their insurance coverage, as is the case with TIGO BIMA. TIGO BIMA initially offered the life and hospital cash product for free and included the option to voluntarily pay for increased cover. After building awareness and a strong client base they have since transitioned to a voluntary product with an approximate 60% conversion rate. Freemium products have shown to be very successful in emerging markets like Tanzania where awareness and understanding of insurance is generally low; however the long-term sustainability as a business model is unlikely (Micro-insurance Workshop 2014). Voluntary micro-insurance products, where premiums are paid by the consumer, are not yet standard in the market although this trend may evolve as the benefits of insurance are understood better, consumer trust and awareness improve,

and insurance becomes more affordable through new products like insurance premium financing (Stakeholder interviews 2014, FinScope 2012, own analysis).

Building on information presented in Table 2, below is a brief explanation of some of the micro-insurance products in the market as of the 2012 Tanzania Country Diagnostic. Updates were provided where information was found during this analysis. The list is not meant to be comprehensive of all current products in the market.

<b>Table 3: Micro-insurance Products in Tanzania</b>			
<b>Long-term Products (Life/Funeral)</b>			
<b>Underwriter</b>	<b>Product name</b>	<b>Product description</b>	<b>Target market and distribution</b>
<b>African Life</b>	Credit life with bundled funeral benefit	Standard credit life product that repays the outstanding loan balance on death or permanent disability of the borrower. Includes a bundled funeral benefit of TZS 500,000 on the borrower's life only.	Embedded in microloans issued by CRDB Microfinance. CRDB is a registered agent for African Life.
<b>African Life</b>	Embedded funeral and accident product	Various products packaged together and offered as a bundle with funeral and accident coverage. NBC Direct is offered in three different packages, Gold, Silver and Bronze.	Embedded in NBC savings accounts, including their Sharia compliant accounts.
<b>African Life</b>	Embedded credit life	A credit life product that pays the outstanding loan balance in the event of death or permanent disability of the borrower. The product includes a benefit payable on the involuntary loss of employment of the borrower equal to a maximum of 6 monthly loan repayments.	Embedded in NMB loans.

<b>African Life</b>	NMB Faraja	A funeral product that provides cover of TZS 600,000 on the death of active NMB savings account holders and their spouses.	Embedded in all NMB personal accounts.
<b>African Life</b>	Fanikiwa funeral benefit	A funeral product that provides cover of TZS 200,000 on the death of the principle member and his / her spouse and TZS 100,000 on the death of up to four children.	SACCO members who wish to buy additional funeral cover at their individual capacity. Distribution is through CRDB Microfinance sales team and SACCOs themselves.
<b>African Life</b>	Deposit life insurance	A savings deposit life insurance product where the beneficiary is paid a multiple of the value of the savings account.	Launched in Spring 2014 between FINCA and Microensure.
<b>Alliance Life</b>	Credit life for Pride MFI	Standard credit life product that repays the outstanding loan balance on death or disability. Includes cover for loss of property due to fire and flood equal to the outstanding loan balance plus an additional payment to the borrower equal to the loan balance, to a maximum of TZS 1m. Also includes a funeral benefit of TZS 600,000 for the borrower and his / her spouse.	Embedded in loans issued by Pride (one of the largest MFIs).
<b>Alliance Life</b>	Credit life for SACCOs	Standard credit life product that repays the outstanding loan balance on death or disability. Includes a funeral benefit of TZS 600,000 for the borrower and his / her spouse.	Embedded in loans issued by participating SACCOs.

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<b>Heritage Insurance</b>	Faraja Bima	Funeral cover for registered members of Vodacom M-PESA. Freemium cover if ten M-PESA transactions are made in one month. There is also a voluntary purchase of cover.	Freemium and voluntary policy for enrolled M-PESA members. The product is no longer marketed on Vodacom's website although it remains active according to Heritage CEO.
<b>MO Insurance</b>	Tigo Bima	Bundled life and hospital cash that covers death of the client and one family member due to accident or illness. There are six level of cover (although only 3 are currently marketed).	Distributed to Tigo client base by dedicated agents (in-store, street agents, and call-center). Originally provided as a Freemium (free+premium) it has now converted to a voluntary product with approx. 60% conversion from free-to-paid (Stakeholder Interview TIGO BIMA)
<b>MO Insurance</b>	Credit Life & Property Package	A credit life product that pays the outstanding loan on the death of the borrower. Includes cover for fire and flood damage to the property for which the loan was granted and up to TZS 1m funeral cover for the borrower, his / her spouse and up to two children.	Embedded in loan products provided by MFIs. Microensure acts as broker and administrator.
<b>APA Insurance</b>	Weather index insurance product for cotton growers	The programme provides cover for the value of the inputs provided on credit to farmers based on a weather index model.	This is a FINCA project, targeted at cotton farmers and distributed at the ginneries where farming inputs are supplied to participating farmers (embedded). The project has met

			limited success and was cancelled in spring 2014.
<b>Jubilee</b>	Group life product for bus drivers	Death, disability, critical illness and funeral cover for bus drivers belonging to the Association of Tanzanian Drivers. Two levels of cover: TZS5m and TZS7m.	Distributed to bus drivers and conductors belonging to the Association of Tanzanian Drivers by the association's secretariat on a voluntary basis. A broker facilitated the scheme.
<b>NIC</b>	Farijika	A personal accident product that provides up to TZS 3m cover on the death of the life assured.	Targeted at bajaji drivers and their passengers as well as businessmen who travel frequently. Purchase of cover is voluntary based on a passive sales model with enrolment via a mobile phone.

### Health Related Products

Underwriter	Product name	Product description	Target market and distribution
<b>NHIF</b>	National Health Insurance Fund	The NHIF serves the public service employees including their spouses and up to four children and/or legal dependants. Currently the benefit package includes: registration fees, basic diagnostic tests, outpatient services including medications and investigations, in-patient care (fixed rate per day per level of health facility), surgery, spectacles, physiotherapy, optical services, dental services, retirees health	Civil servants (compulsory membership), students and pensioners

		benefits, medical/orthopedic appliances.	
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<b>NSSF (National Social Security Fund)</b>	NSSF-Social Health Insurance Benefit (SHIB)	The SHIB scheme covers employees and dependents (one spouse and up to four children). It aims to provide most general healthcare services for beneficiaries including:- A. Out-patient services B. Consultations C. Basic and specialized investigations D. Drugs under the National Essential Drug List E. Simple procedures	NSSF covers the following categories of employers and employees:- A. Private sector which includes. B. Government ministries and departments employing non-pensionable employees. C. Parastatal organizations. D. Self-employed or any other employed person not covered by any other scheme. E. Any other category as declared by the Minister of Labour. Membership is compulsory.
<b>CHF</b>	Community Health Funds	Covers principal member, spouse and children below the age of 18 years for public primary healthcare & some hospital services. Paid for on a capitation basis. Administered by the NHIF.	A state scheme that caters for the informally employed. Membership is voluntary.
<b>Informal Cover</b>			
Underwriter	Product name	Product description	Target market and distribution
<b>SCCULT (Savings and Credit Cooperative Union League of Tanzania)</b>	Loan Cover	In-house credit life fund covering the outstanding loan balance plus interest on the death or permanent disability of the borrower.	Embedded in the loans granted to borrowers of SACCOs affiliated to SCCULT. Currently Active.
<b>Fanikiwa</b>	Credit life	In-house credit life fund covering the outstanding loan balance plus interest on the death of the borrower only.	Embedded in the loans granted to Fanikiwa borrowers.



<b>Postal Bank of Tanzania self-insurance</b>	Consumer Loans Indemnity fund	In-house credit life fund covering the outstanding loan balance on the death or permanent disability of the borrower.	Embedded in loans granted by Postal Bank.
<b>Postal Bank of Tanzania - self-insurance</b>	Micro-insurance Fund for Micro Credit & Staff salary Loans	In-house credit life fund covering the outstanding loan balance on the death or permanent disability of the borrower. Includes cover for fire and burglary.	Embedded in microloans and staff salary loans granted by Postal Bank.
<b>N/a</b>	KNCU Health Plan	MicroEnsure, in partnership with the PharmAccess Foundation (PharmAccess), launched a health plan in 2012 serving members of the Kilimanjaro Native Cooperative Union (KNCU) in the Kilimanjaro area of North Tanzania. Benefits are funded on a capitation basis and offers full outpatient services and inpatient maternity cover. To date there has been limited success and participation.	Each cooperative votes on whether or not it should take out the health plan. If more than 50% of the cooperative vote in favour, the whole group is enrolled into the health plan and the premium is deducted from the proceeds of their coffee sales. Microensure recently terminated their participation in Sept. 2014 (Stakeholder Interviews 2014).

## **2.4 Challenges and opportunity for micro-insurance in Tanzania**

### **2.4.1 Challenges**

It is widely accepted that the poor tend to be more liable to risk and significantly more exposed when negative shocks, such as illness, death, natural disasters, and unemployment occur (Kishor, 2013). In the absence of insurance, risk protection often involves alternative coping mechanisms such as calling upon family and friends, taking loans, depleting assets, or reducing expenses for education or even consumption (IAIS 2012). In Tanzania, the most common risk management strategies are to rely on loans or other forms of support from family and friends (52.7%), personal savings (31.8%), and selling assets such as crops, land, or livestock (26.9%) (FinScope 2013). Unfortunately in most instances, even when combined, the strategies are not adequate to build assets, secure money and escape poverty. This is compounded by the fact that many people in the low-income, underserved market have a negative perception of insurance and often consider insurance a ‘sunk expense’. Various barriers to insurance are explained in more detail below, but the most common reasons given by uninsured individuals and business owners interviewed for the Country Diagnostic are:

- lack of understanding of the benefits/value of insurance,
- Lack of an understanding of how insurance works, what products are available, and how and where to obtain insurance
- Lack of trust in insurance and/or insurance companies
- Perceptions around the affordability of insurance

Other primary challenges facing sustainable micro-insurance development in Tanzania are:

#### **Environmental challenges:**

- Extreme population growth;
- Poor and limited infrastructure;
- Rural/urban divide;

#### **Economic challenges:**

- Economic growth is not expected to meet the demands of the growing population;
- Inflation rate fluctuations have varied from ~6.0-20% since 2011 and presently is 6.4%. Current interest rates are 12%.
- Persistent poverty and inadequate coping mechanisms;
- Informal and agrarian economy prevents formal financial inclusion;
- Low level of education, as people will rely on their own or other’s misconceptions.

#### **Access barriers:**

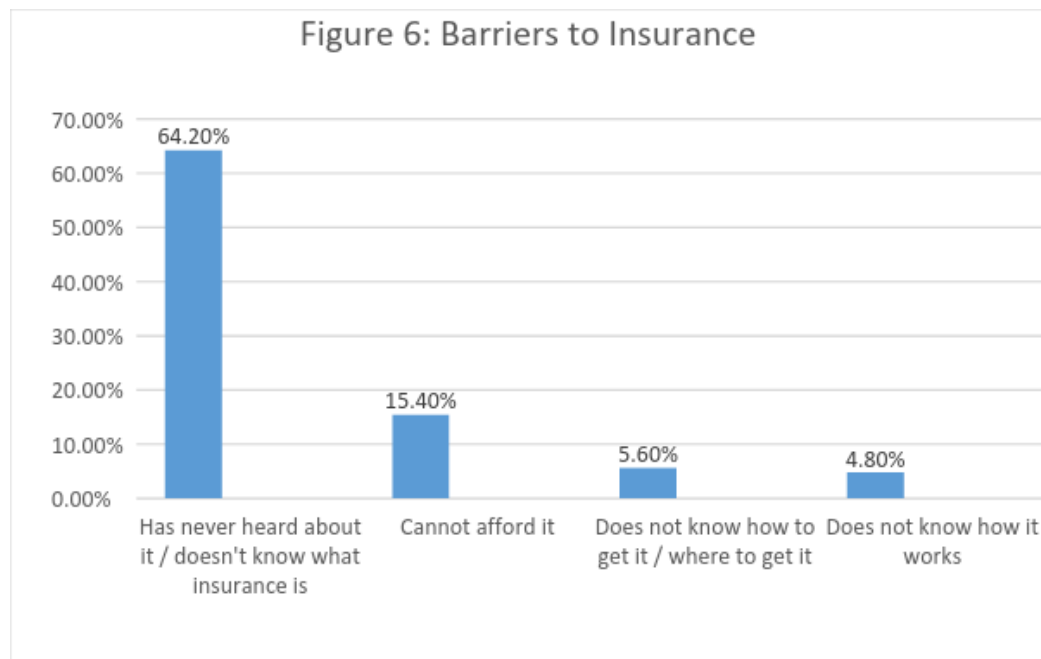
- Availability of appropriate products to target market. Where insurance is available, it is highly likely that a person’s options are limited to one product. In order for micro-insurance to work, people need to first be aware of what their options are, and second understand which option is most suitable to their risks, needs, and budget.
- Physical accessibility to buy products, pay premiums, make claims.
- Limited trustworthy and effective distribution channels exist. Consumers need a way to shop for products beneficial to them in a secure environment where they feel confident about their knowledge and decisions.

- **Affordability:** many people need a way to 1) afford their monthly premium payments, 2) easily find a way to pay the premium and 3) understand how to file a claim and access the money.
- **Eligibility:** Many people may not have appropriate documentation to be eligible for a product.

### Usage barriers:

- There is an overall lack of trust in insurance (see Box 1). Once trust is undermined, consumers lose confidence in that particular product, brand, agency, or insurance altogether, creating a negative market discovery. Although perceptions are slowly evolving, in the brief time micro-insurance has occupied the market in Tanzania, most emerging consumers have had a negative market discovery. This is in part due to the fact that many consumers do not understand the products and its benefits, the process and procedures of paying premiums or claims settlement and the inefficient and unreliable interaction with intermediaries or insurers.
- Awareness and education of insurance is low (Figure 6). Among the uninsured population in Tanzania most people have never heard of insurance; therefore few people even consider insurance as an option. 64.2% of the uninsured population indicated they had never heard of it, 15.4% cannot afford it, 5.6% do not know how or where to get it, and 4.8% don't know how it works (FinScope 2013).

**Box 1: The National Insurance Corporation of Tanzania** has a history of nationalism and being a state-owned monopoly with limited reach to majority of the population. They have a reputation for poor claims records undermining trust and leading to negative market discovery (FSDT 2012).



## 2.4.2 Opportunities

According to the Tanzanian Access to Insurance Diagnostic, approximately 66% of the Tanzanian adult population, or 16.4 million individuals could afford some form of insurance (FSDT 2012). Of this number approximately 13 million have no cover while the remaining 3 million may have some cover but still have additional insurance needs (Figure 7). The need is there but the challenge is building consumer trust and awareness to generate demand, which remains relatively low, by offering the right propositions at the right time and in increments affordable to the customer. With the advent of embedded products and Freemiums coupled with awareness and education building through campaigns like Tigo Bima's Radio soap opera (Box 2), understanding of the value and benefit of insurance is growing. Continued projected economic growth and a stable political economy coupled with a favorable regulatory environment committed to poverty alleviation, financial inclusion, and micro-insurance are also conducive signs to market development.

**Box 2: TIGO BIMA** in partnership with Leapfrog Labs launched a radio soap opera to air on national radio educating people about the value and benefits of insurance. The program was launched in May 2014 and to date they have seen an increase in the number of sales calls requesting information about their product.

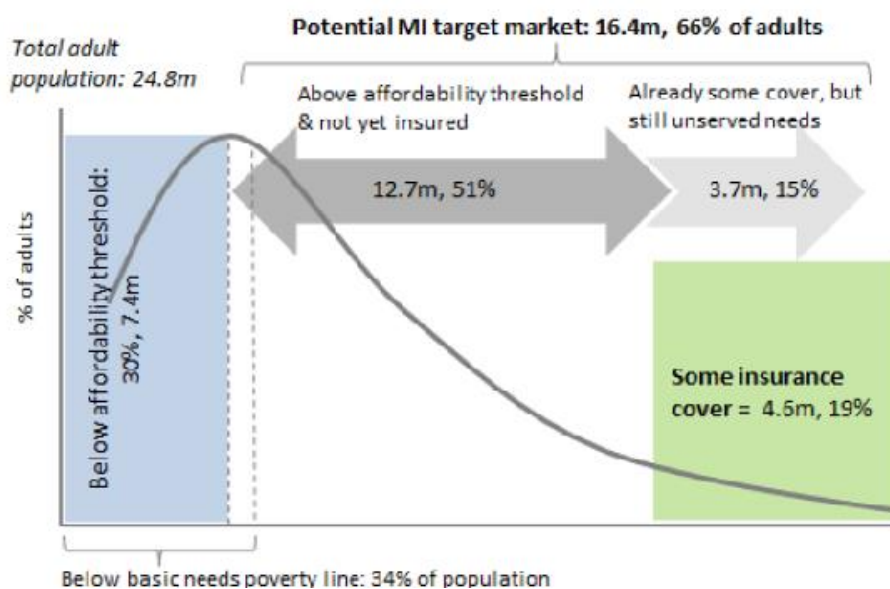


Figure 7: Potential micro-insurance market in Tanzania (FSDT 2012)

Micro-insurance is sold based on large volumes of very small premiums; therefore a high level of scalability associated with low transaction costs must be met. It is widely accepted that scale will be reached through aggregation, typically through existing infrastructure footprints like financial services providers such as FINCA, and not through individual agents. Embedded products and Freemiums will continue to play a role in the near future and voluntary insurance market should slowly evolve as awareness increases. In addition, the increase in mobile penetration and use of mobile money will only further enable insurance distribution, administration, premium collection, renewals, and claims settling to be more efficient.

Observations from interviews with key stakeholders and analysis of literature and other market research highlight some areas to explore in more detail. One area identified is the structure of premium payments as a limit to increasing insurance uptake among the low-income population. In Tanzania nearly all insurance products are paid in annual lump-sums (e.g. motor insurance, property). Most Tanzanians with low and/or irregular incomes may not have enough money or cash-flow to afford the one-time annual premiums, therefore forego insurance all-together. Developing an insurance premium financing platform for low-income customers would enable new opportunities to offer new insurance products typically overlooked in the market. This may also be a reason why long-term insurers lead the micro-insurance market in Tanzania.

In a second example, farmers which tend to have irregular incomes matching harvest do not have the ability to pay annual premiums, and rather prefer to pay for premiums in line with the seasons. In response, some agriculture insurance pilots have engaged agriculture input providers to pay the annual premium, with farmers re-paying the premium (plus interest) at the end of the growing season (Stakeholder Interviews 2014). Using a similar model, there is a compelling business case for insurance premium financing to lower the barrier of entry faced by annual premiums, thus enabling the low-income sector to access insurance products unaffordable. This idea and others will be explored in greater detail throughout.

## 3 Distribution Analysis

### 3.1 Historical context and changing regulations

In a rural agrarian population, reaching and servicing customers has been very challenging for insurers. Today, utilizing a range of intermediaries, such as traditional brokers/agents, financial and agricultural service providers, MNOs, NGOs, and retail, innovation in distribution has evolved as a critical driver for micro-insurance to achieve scale. Not only do alternative distribution channels enable insurers to reach customers more cost effectively, they also provide a trusted brand, large existing infrastructure footprint and transaction platform, all of which help insurance reach scale and aid in overcoming issues of mistrust. (Smith, A., Smit, H., Chamberlain, D. 2011). Beyond Sales: New Frontiers in Micro-insurance Distribution Lessons for the Next Wave of Micro-insurance Distribution Innovation).

As history has shown many of the innovative micro-insurance products exercise various distribution channels to better fit the needs of low-income populations rather than simply implementing miniaturized versions of conventional products (IAIS 2012). In Tanzania, most of the trends in innovations and products have been driven by MNOs and financial institutions with insurers and reinsurers playing a back-seat. Many of the alternative distribution aggregators share common characteristics and features outlined in Table 4 below (Smith et al. 2011). For example, distribution through MNOs provide both a “trusted brand” and “scale-through aggregation.” These trends are likely to continue into the future.

Table 4: Common Distribution characteristics and trends	
DISTRIBUTION MODEL	EXPLANATION
“Scale through aggregation”	“Ability to achieve scale by targeting large client concentration i.e. specific non-insurance client group such as clients of retailers, cell phone companies, utility companies etc.”
“Presence through infrastructure footprint”	“When entering into partnerships with organisations with large client concentrations, alternative distribution models typically rely on the presence of an infrastructure footprint that is larger than what could be achieved by an insurance company in isolation. The infrastructure could be physical (e.g. store buildings) or virtual (e.g. a cell phone network).”
“Transaction platform”	“The sales channel typically doubles as a premium collection platform e.g. adding premiums onto a utility bill.”



<b>“Standalone voluntary product”</b>	“Models distribute voluntary insurance products sold on an “opt-in” rather than “opt-out” basis. That is: buying the insurance is an explicit choice by the customer rather than an automatic addition to another product or service.”
<b>“Trusted brand”</b>	“The majority of models rely on a distribution partnership with a well-trusted brand, some of the models do not have this benefit and, in these cases, it can be concluded to have negatively impacted the success of the models.”

### **Regulatory influence on Distribution**

The 2009 insurance regulations are broadly defined and permit micro-insurance distribution by brokers and agents (corporate or individual) in the distribution of micro-insurance products. The 2009 regulations also permit agent employees and broker’s agents to operate without explicit registration and although direct distribution, such as Bancassurance or aggregator distribution of micro-insurance products is not explicitly allowed, it is also not prohibited (FSDT 2012). The new Draft Micro-Insurance Regulations have been modified to require any person(s) or company distributing micro-insurance to be a licensed micro-insurance agent. This includes individuals, companies, NGOs, Self-Help groups, MNOs, or MFIs as long as they are appointed by an insurer to act as micro-insurance agents. Unlike brokers, micro-insurance agents are limited to representing insurers and all micro-insurance agents must enter into an agreement with an insurer that specifies its duties and responsibilities. The regulations do not explicitly limit the number of insurer an agent can represent, however the Commissioner concluded during a workshop that it could be no more than three insurers in each category (general, long-term).

Brokers, which currently play an active role in the distribution of micro-insurance, will be prohibited from distributing micro-insurance unless they are licensed micro-insurance agents and insurers will also be required to distribute products through licensed micro-insurance agents. It is the working assumption that FINCA will be required to secure a micro-insurance agency license to be compliant with its existing and future products. The license permits FINCA to train and distribute micro-insurance through its staff with only one agency license (Micro-insurance Workshop 2014). An unintended consequence requiring intermediaries are the potential limitations and inflexibility on distribution, discouraging new entrants in the market and undermining growth (Stakeholder Interviews 2014, FSDT 2012).

Of greatest concern to micro-insurance distribution is the provision prohibiting the bundling of long-term and general products together in efforts to set clear and consistent rules and standards. To date, bundled products such as Life+Property, have been well received in the market and permitted by TIRA as long as the secondary product (in this example property), is a rider on the primary cover (life). Other examples include Life+Partial/Permanent Disability, which have been permitted upon written notice to the TIRA Commissioner. The new demarcation between life and non-life micro-insurance policies removes this flexibility which may have the unintended consequence of reducing the number of insurer’s willing to write products under the micro-insurance definition.

### 3.2 The Current Market

To understand viable distribution options in Tanzania it is critical to understand the breakdown of the micro-insurance target market. The Tanzania Country Diagnostic provides an analysis of the market, splitting the market into four categories with estimates for the percentage of the adult population falling in each category (Figure 8). Using data from the 2009 FinScope questionnaire, the segmentation methodology considered the following variables: employment status, banked status, and mobile phone ownership. These questions were used to create discreet market segments, categorizing first the population by employment status, which serves as a good proxy for consistency of income. This was followed by an analysis of the banked status, which provides a good proxy for formal access to insurers, while lastly mobile phones which are used to measure insurers ability to reach customers not formally included.

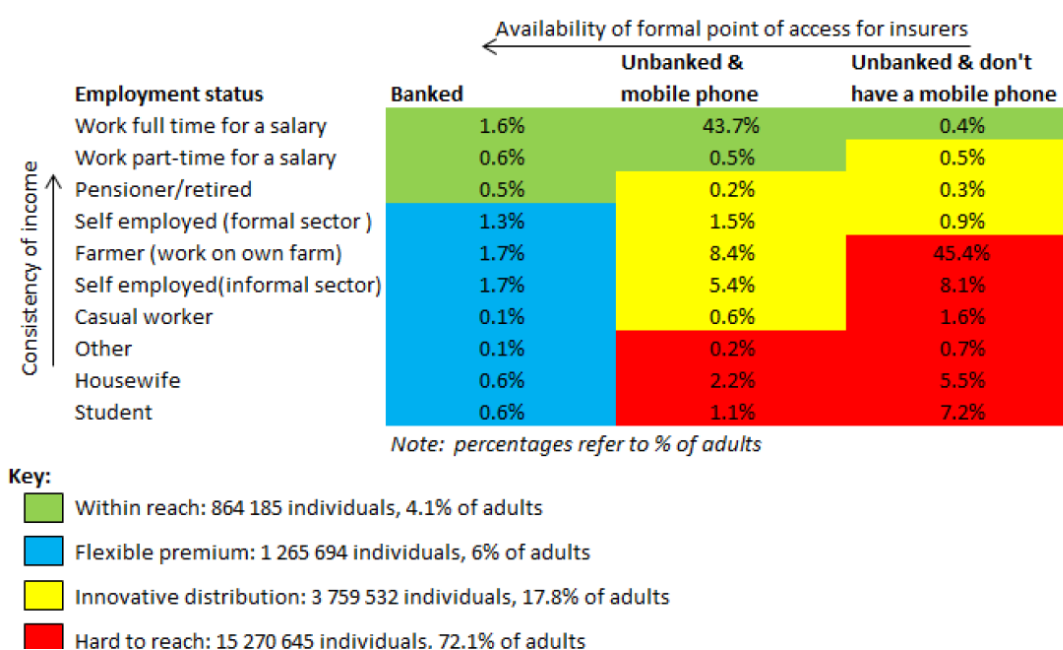


Figure 8: Segmentation by employment status, banked status and mobile phone ownership

The analysis describes the “within reach” group at (4.1%), the “flexible premium” group at (6%), the “innovative distribution” group at (17.8%), and the “hard to reach” group at (72.1%). Table 5 below provides a breakdown of each group, including factors like: age, gender, geography, mobile phone use, education, banking status, income, and the opportunity or potential for insurance.

The analysis was conducted in 2012 using data from the 2009 FinScope questionnaire; therefore some of the data is likely outdated. For instance, mobile penetration has increased to over 63% of the adult population and 50% of Tanzanian’s use mobile money with 99% awareness (FinScope 2013) As a result, it is likely a portion of the “hard to reach” group has moved into “innovative distribution” group, the “innovative distribution” group into the “flexible premium” group, and so on, presenting an even greater opportunity for micro-insurance distribution opportunities. FINCA’s existing clientele likely fall within the innovative distribution and flexible premium group, therefore targeting distribution opportunities among this segment is recommended.



**Table 5: Profiles of Various Distribution Groups**

	Within Reach	Flexible premium	Innovative distribution	Hard to reach
<b>Population segmentation</b>	864,185 (4.1%)	1,265,694 (6%)	3,759,532 (17.8%)	15,270,645 (72.1%)
<b>Major age bracket</b>	25-34 (24.3%)	35-44 (24.7%)	25-34 (33.9%)	25-34 (27.2%)
<b>Gender</b>	Male (66.8%)	Male (55.6%)	Male (55.6%)	Female (56.4%)
<b>Geography</b>	Urban (60.2%)	Urban (57.8%)	Rural (60.9%)	Rural (79.2%)
<b>Highest education level completed</b>	Secondary (34.8%)	Primary (48.9%)	Primary (70.5%)	Primary (55.4%)
	Tertiary (24.7%)			
<b>Insured</b>	40.2%	28.1%	5.6%	2.8%
<b>Own a mobile phone</b>	81.1%	79.4%	93.5%	7.8% <i>Note: this number has likely increased since 2009.</i>
<b>Access to a mobile phone</b>	96.2%	96.2%	96.6%	63%
<b>Banked</b>	67.7%	100%	0%	0%
<b>Formal credit</b>	35.2%	32.8%	18.6%	15.5%
<b>Informal credit</b>	34.5%	39%	46.9%	42.8%
(FSDT 2012)				

**Table 6: Analysis of Micro-insurance Market in Tanzania**

**The “within reach” group**

**% of population:** 4.1% of the adult population (864,185 individuals).

**Gender:** 66% male

**Urban/rural:** 60% urban

**Education:** Well educated

**Banked:** Yes

**Insured:** 40%

**Mobile:** 81%

**Income:** Relatively consistent

**Opportunity for insurance:** This group provides a formal point of access for insurers. This group can be perceived as the “low hanging fruit” with insurers and intermediaries gaining access to the customer either through their bank account or through their employer. 40% of this segment has some form of insurance.

**The “flexible premium” group:**

**% of population:** 6% (1,265,694 individuals).

**Gender:** 55.6% male

**Urban/rural:** 58% urban

**Education:** N/A

**Banked:** Yes

**Insured:** 28%

**Mobile:** 80%

**Income:** Less consistent than “within reach” group

**Opportunity for insurance:** The flexible premium group provides a formal point of access for insurers. Products must be designed to have features suited to the income of this target market. 28% of this segment have some form of insurance. This target market has likely increased since 2009.

**The “innovative distribution” group:**

**% of population:** 17.8% of the adult population (3,759,532 individuals). *Note, this number is likely to have increased since 2009 with the “hard to reach” group moving into this segment with the growth of mobile penetration.*

**Gender:** 55.6% male

**Urban/rural:** 61% live in rural areas

**Education:** 70% only have a primary education

**Banked:** Unbanked; 46.9% indicated that they have an informal loan

**Insured:** 5.6%

**Mobile:** 93.5%

**Income:** Relatively inconsistent levels of income

**Opportunity for insurance:** Innovative alternative distribution channels will need to be leveraged. Because of the high mobile penetration, mobile phones are likely to be the most viable distribution channel to reach this market. Nearly half of this group indicate that they have an informal loan; therefore community-based groups may be good aggregators. In addition, with increased financial access and high mobile penetration, this population segment presents a challenging but un-tapped opportunity for innovative product and distribution. This target market has likely grown since 2009 with members from the Hard to Reach group entering the segment.

**The “hard to reach” group.**

**% of population:** 72.1% of the adult population (15,270,645).

**Gender:** Majority are female (56.4%)

**Urban/rural:** 79% rural

**Education:** Majority only have primary education (55%)

**Banked:** Unbanked; 43% borrows money from an informal group

**Insured:** 2.8%

**Mobile:** \*7.8% (although 63% have access to a mobile)

**Income:** Inconsistent

**Opportunity for insurance:** The “hard to reach” group is the largest group in Tanzania. Attaining this group will require innovative ‘outside the box’ thinking. 43% of this group borrow money informally, which could present an opportunity to use community-based groups as aggregators (FSDT 2012). In addition, with the significant increase in mobile penetration countrywide, it is likely that some of the “hard to reach” group has entered into the “innovative group” category. This market segment likely includes members of FINCA Tanzania’s clientele, particularly its village banking products.

\*Note: Based on significant increase in mobile penetration to 63% this market segment likely has much more mobile penetration since the 2009 data.

(FSDT 2012)

### 3.3 Alternative Distribution Methodology

We performed desktop analysis, interviews and mystery shopping during the distribution phase to identify viable opportunities for micro-insurance distribution in Tanzania. Market sectors considered during the phase were:

- Financial Service Providers
- Telecoms
- Agriculture
- Retail
- NGOs and Foundations

Variables considered when analyzing each distribution channel were:

- Established brand / background
- Implementation of Insurance programs
- Infrastructure footprint
- Existing transaction platform
- Opportunity
- Risks/Challenges

When evaluating the opportunities we also considered regions where FINCA Tanzania has active operations. These are:

1. Arusha
2. Dar es Salaam
3. Dodoma
4. Geita
5. Kagera
6. Kilimanjaro
7. Mbeya
8. Morogoro
9. Mwanza
10. Shinyanga

At the conclusion we selected the top distribution opportunities identified with recommendations for near-term and 3-5 year distribution priorities. The following table provides a summary of the different distribution options considered.

### 3.4 Summary Table of Distribution Options

**Table 7: Summary of Distribution Options**

	Strategic "fit"	Scale	Capacity	Rating	Potential
<b>Financial Institutions</b>					
FINCA	5	3	5	13	High
Microfinance Institutions (MFIs)	4	3	4	11	High
SACCOS	3	3	3	9	High/Med
VICOBA	3	3	2	8	High/Med
<b>Telecoms</b>					
Vodacom	2	5	5	12	High
Airtel	2	5	5	12	High
TIGO	2	5	5	12	High
Zantel	2	5	3	10	High/Med
<b>Agriculture value chain</b>					
Kilimo Salama	4	3	4	11	High
Dodoma Agriculture Association	4	2	4	10	High/Med
The Tanzania Federation of Cooperatives (TFC) Limited	2	4	2	8	High/Med
Tanzania Horticultural Association (TAHA)	2	4	2	8	High/Med
MVIWATA	2	2	2	6	Low/Med
<b>Retail</b>					
MeTL	1	3	1	5	Low/Med
Nakumatt/Shoprite	1	2	2	5	Low/Med
Azam	1	3	1	5	Low/Med
<b>NGOs/Foundations</b>					
Vodacom Foundation	3	3	3	9	High/Med
Tanzania Red Cross Society (TRCS)	2	1	1	4	Low
<b>Rating</b>	<b>Potential</b>	<b>Key</b>			
1 to 4	Low	<b>Strategic "fit"</b>	1: Different mission, goals & target market	5: Same mission/goals & target market	
5 to 7	Low/Med	<b>Scale</b>	1: Small infrastructure footprint, client base <75,000	5: Large infrastructure footprint, client-base >1MM	
8 to 10	High/Med	<b>Capacity</b>	1: Limited transaction platform, small growth potential, no insurance programs	5: Excellent transaction platform, large growth potential, currently pursuing insurance programs	
11 to 15	High				

### **3.5 Mystery shopping Results**


#### **3.5.1 Financial Service Providers (Banks, MFI, SACCOs etc.)**

##### **Context**

Financial Service Providers in Tanzania have contributed a large role to the increase in insurance penetration and distribution. Credit-life, life and embedded funeral products have shown rapid growth bundled with other financial products. In fact, 50% of bank accounts have some form of embedded insurance and with over half of Tanzania's adult population having access to financial services compared to just 27% in the year 2009 (FSDT 2012, FinScope 2013). Curiously though, financial service providers have exhibited small growth relative to the mobile market (MNO and mobile money). This fact coupled with the relatively high existing insurance penetration rates, new opportunities for financial service providers lie in new product development and cross-selling opportunities to existing customers.

There are currently 34 Banks and 18 Financial Institutions regulated by the Bank of Tanzania (BoT), with FINCA being the only regulated MFI by the Bank of Tanzania. There are 22 unregulated MFIs, ~1,507 Saving and Credit Cooperative Organizations (SACCOs), ~5,000 Village Community Banks and many more informal financial services (Bank of Tanzania, [mixmarket.org](http://mixmarket.org)).

### 3.5.1.1 Market Examples

<p><b>FINCA Tanzania</b></p> <p> <b>FINCA®</b></p>	<p><b>Background</b></p> <p>Established in 1998 and covering about 40% of the country overall, and 65% of population centers FINCA is one of the largest, most well-known and respected MFIs in Tanzania. FINCA pioneered the implementation of village banking where groups of low-income entrepreneurs, typically women in self-help groups of 20-30, come together to share and guarantee one another's loans. Loans are administered locally rather than centralized in a formal bank, providing far greater access to financial services in areas traditionally unmet. FINCA Tanzania recently became a regulated deposit-taking institution under the Bank of Tanzania which should increase its reach to even more people. FINCA has 120,000 active clients.</p> <p><b>Insurance Program:</b> Compulsory credit-life, and deposit life insurance. They had an agriculture weather index pilot which was cancelled in the Spring 2014.</p> <p><b>Infrastructure footprint</b></p> <p>26 branch locations in 8 regions throughout the Tanzania with over 700 staff. FINCA Tanzania expects to expand to 800 new FINCA Express Agents and 300,000 clients in the next three years. Appendix 5 shows the population density in proximity to FINCA Tanzania's active offices throughout the country.</p> <p><b>Transaction Platform</b></p> <p>FINCA is currently using M-PESA for loan remittance. In partnership with MasterCard Foundation FINCA is launching FINCA Express Sales Agents in their major locations and urban population centers beginning in July 2014. The Agent locations will be able to serve new and existing clients as cash-in/cash-out, remittance, savings, and loan disbursement. Once established, the Express Agents could potentially serve as an additional platform for sales, collection, and distribution of micro-insurance products and insurance premium financing (IPF).</p> <p><b>Opportunity:</b></p> <ul style="list-style-type: none"> <li>▪ Leverage FINCA's regulatory status as a deposit-taking institution.</li> <li>▪ Secure a micro-insurance agency license and partner with insurers to distribute products.</li> <li>▪ Optimize and expand existing infrastructure platform (branch network, sales agents), including the FINCA Express Agents.</li> </ul> <p><b>Risks/Challenges:</b> Capacity constraints, additional product training needed at the branch network level, high staff turnover, no dedicated insurance manager at HQ and no dedicated roles/responsibilities for insurance at the branch level. Slow claims processing, new Express Agents will take time to become efficient. No direct sales support or sales incentives for staff.</p>
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**Microfinance  
Institutions (MFIs)**

**Background:** Microfinance dates back to 1985 when the Tanzanian government promoted and established the Presidential Trust Fund. By the mid-nineties other MFIs, largely led by NGOs like FINCA began to flourish and by the late nineties community banks and cooperatives were common. MFIs play a large role in financial inclusion and are common in all of the major urban areas throughout Tanzania, although they are largely absent from rural areas. Many of the larger MFIs, like FINCA and PRIDE are well known and respected throughout the country (Stakeholder Interviews 2014).

**Insurance Program:** Most large, established MFIs offer some form of credit-life, enhanced credit-life, funeral or other bundled products.

**Infrastructure Footprint:** Including FINCA there are 23 MFIs operating in Tanzania. There are 166 MFI branches operating in regions where FINCA is active (FSDT Mapping Tool 2014). Some of the MFIs with the largest number of clients and infrastructure footprints are listed:

- Access Bank (25,000 borrowers)
- Akiba (27,000 borrowers)
- BRAC-TZA (104,000 borrowers)
- Vision Fund (33,000 borrowers)
- PRIDE (unavailable)

**Transaction Platform:** MFIs use a range of services including mobile money, mobile money agents, MFI agents, and branch networks. Extensive branch networks mostly in urban areas with high population density provide good opportunities to reach new customers. In addition, the rise of mobile money use has significantly improved efficiency, scale and reach.

**Opportunity:** The FINCA proposed entity could target the larger MFIs operating in and around FINCA branches and FINCA Express Agents offering new products such as IPF. Additional follow-up will be required by FINCA Tanzania to determine other local opportunities.

**Risks/Challenges:** Most MFIs are located in high concentrations in a few urban areas and have limited reach to the rural population. Many of the MFIs already have active micro-insurance programs.

**SACCOS (Savings  
and Credit  
Cooperative  
Organizations)**

**Background:** Savings and Credit Cooperatives also known as SACCOS range from community-based initiatives to work-place SACCOS. They operate in both urban and rural locations and have been an excellent tool for financial inclusion. Outside of the larger SACCOS, the opportunity for micro-insurance distribution appears to be limited.

**Insurance Program:** Many SACCOS have some embedded credit-life and voluntary funeral cover through African Life and CRDB (Fanikwa). Jubilee and Alliance also claim to underwrite some credit-life products for SACCOS.


**Infrastructure footprint:** There are 1,507 registered SACCOS in Tanzania with 217,248 individual members, although only 761 are active (Bank of Tanzania). According to the FSDT GIS mapping tool, there are 816 SACCOS working in the regions where FINCA is active (FSDT Mapping Tool 2014). SACCOS affiliated to the Savings and Credit Cooperative Union League of Tanzania (SCCULT) count to 657 with 92,687 individual members. 242 SACCOS are Rural SACCOS and 415 are Urban SACCOS.

**Transaction Platform:** Distribution through existing member network, targeting the larger SACCOS.

**Opportunity:** Cumulatively SACCOS have a large infrastructure footprint countrywide, however they are often unorganized and to date have not successfully been used at scale for insurance distribution. Many SACCOS are located in regions and population centers near FINCA branches providing opportunities to reach a new client base. Targeting SACCOS with new products such as IPF may be possible. FINCA could also target SCCULT which already offers some informal cover.

**Risks/Challenges:**

SACCOS are challenged by capacity constraints and there is a general lack of professional capacity management and supervision. In addition, many of the larger SACCOS have already been targeted for insurance through African Life and CRDB.

<p><b><u>Vicoba</u></b></p>	<p><b>Background:</b> VICOBA is an "acronym" for "Village Community Bank" and is run by the VICOBA Sustainable Development Agency, a Non-Government Organization. VICOBA's are village-based savings groups with members purchasing shares and contributing to the loan fund proportionally to their number of shares. The organization is based in Songea, Ruvuma Region, Tanzania.</p> <p><b>Insurance Program:</b> None known</p> <p><b>Infrastructure Footprint:</b> VICOBA currently has ~150,000 members, divided into 5,000 groups in all 30 regions around Tanzania. Average group size is 15 to 30 members. <i>Note: the Country diagnostic reports 700,000 members (FSDT 2012).</i></p>
<p> <b>VICOBA</b> BENKI YA MAENDELEO VU</p>	<p><b>Transaction Platform:</b> Informal village-banking and extensive network of many small groups. The regional coordinators present better opportunities to reach volume efficiently.</p> <p><b>Opportunity:</b> The FINCA proposed entity could partner with VICOBA Sustainable Development Agency targeting the 30 regional bank coordinators where VICOBA and FINCA overlap. FINCA could partner to offer loan products with embedded credit-life as well as IPF.</p> <p><b>Risks/Challenges:</b> Small groups operating in rural areas make servicing insurance and achieving scale challenging. Both access and usage barriers (accessibility, affordability, understanding, awareness etc.). Currently Vicoba's only provide savings products.</p>

### 3.5.2 Telecoms

#### Context

The mobile phone has proven to be a major mover in the micro-insurance market for a variety of reasons including: positive branding, communication with customers (SMS, USSD, voice), product design, sales, enrolment, premium collection, policy administration, claims processing, other value added services, data analysis and management. In fact of all new micro-insurance development, 1/3 are being led by MNOs and insurers, while the remaining 2/3 are made up of banks, MFI, government, third parties, donors and consortia (CGAP: The Emerging Global Landscape of Mobile Insurance, January 2014). Fifteen new MMI products around the world were launched in the first 8 months of 2013 alone and globally, 71 of 84 micro-insurance products are mobile micro-insurance products and transacted via MNOs; 54% of which are being offered in Sub-Saharan Africa (CGAP 2014).

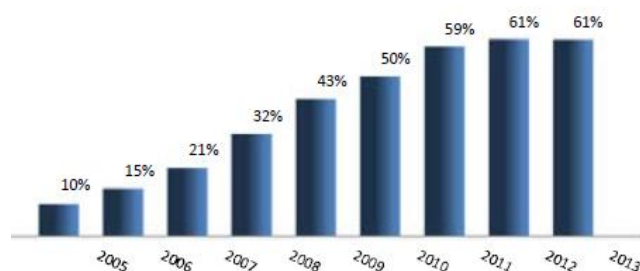


Figure 9: Mobile Phone Density, Telecom Quarterly Report December 2013

In Tanzania mobile phone penetration has grown steadily over the last six years, creating new opportunities for micro-insurance distribution (Figure 9). As of December 2013, approximately 61% of Tanzanian adults, or 15.6 million people, owned a mobile phone (Telecom Quarterly Report December 2013). This number has since increased to 63%. About

one-half of all Tanzanian households have access to a mobile phone and own a SIM card, an inexpensive asset and valuable tool to capture customer information valuable to insurers (InterMedia 2013). The cost of smart phones also continues to steadily drop, making financial services, including insurance, more accessible than ever to low income people.

The top contenders in the MNO arena are Vodacom Tanzania Limited, Bharti Airtel Tanzania, MIC Tanzania Limited ('Tigo'), Zanzibar Telecom Company ('ZANTEL') a part of Etisalat of the United Arab Emirates, and Tanzania Telecommunications Company Limited ('TTCL') (Figure 10).

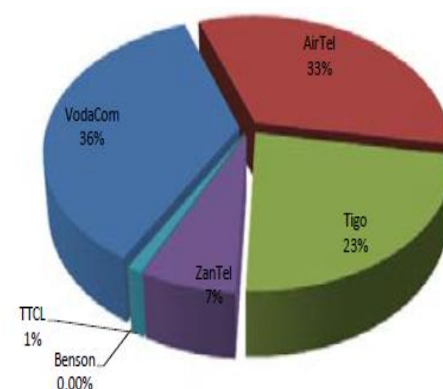


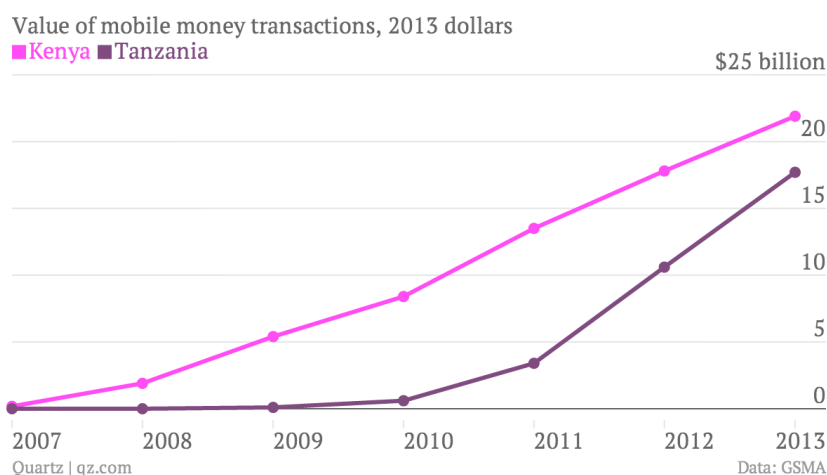
Figure 10: Telecom Quarterly Report December 2013: Subscription Market Share

## Mobile Money Usage in Tanzania

High mobile penetration coupled with limited banking infrastructure throughout the country has led to the increase of mobile banking as a quick, cheap, convenient and reliable alternative. The FinScope 2013 study reports an increase in mobile money usage from 1.1% in 2009 to 50% in 2013. The Tanzania Mobile Money Tracker's most recent research reported 99% of the Tanzanian adult population, even those who don't use mobile money, are aware of mobile money and the brands associated with it: Airtel Money, Tigo Pesa and Vodacom's M-PESA being the most recognized. Studies have shown that awareness and usage is not dependent on rural or urban residency. It is increasing across almost all demographic groups, and knowledge of how to access money via mobile phones is steadily rising.



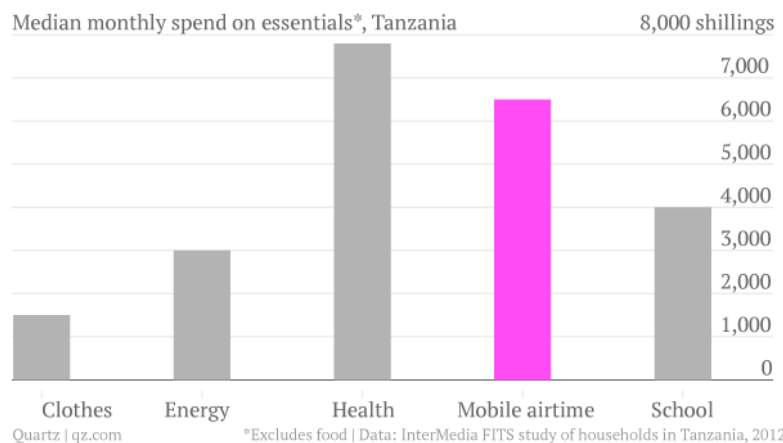
The main form of mobile money exchange (70.7%) is sending and receiving money from other mobile money users. Paying bills or fees and business transactions is the lowest form of usage, but this area is expected to have the largest expansion in the coming years. Mobile savings and loans facilities are also increasing such as Vodacom and CBA's recently launched M-PAWA savings and loan program which registered 250,000 customers in its first three weeks. In 2013, the value of mobile money transactions in Tanzania was 17.5 billion USD with Tanzania projected to surpass Kenya as the mobile money market leader in the near future (Figure 11, QZ.com 2014)



**Figure 11: Value of Mobile Money Transaction, QZ.com**



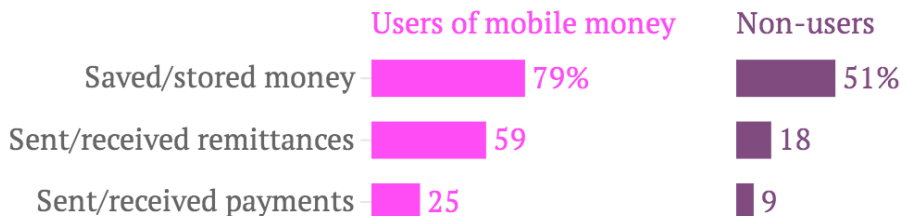
Figure 11 paints a useful median expenditure profile of essential spends by Tanzanians. Second to health, mobile airtime is the most common expense in Tanzania (Figure 12).



**Figure 12: Median monthly spend on essentials (excluding food)**

Figure 13 & 14 compare the difference between users of mobile money and non-users with respect to their use of both basic and advanced financial activities. The graphs clearly show that users of mobile money have a higher probability of accessing other financial services and more than three times the rate of insurance services compared to non-users.

#### Comparing basic financial activities in Tanzania

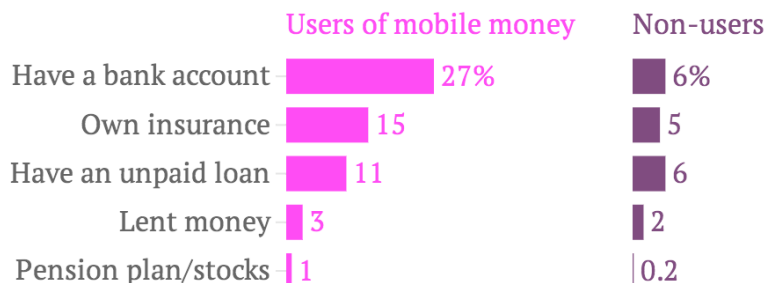


Quartz | qz.com

Data: InterMedia FITS study of households in Tanzania, April-May 2012

**Figure 13: Comparing basic financial activities in Tanzania, QZ.com**

#### Comparing advanced financial activities in Tanzania



Quartz | qz.com

Data: InterMedia FITS study of households in Tanzania, April-May 2012

**Figure 14: Comparing advanced financial activities in Tanzania, QZ.com**

### 3.5.2.1 Market Examples

#### Vodacom & M-PESA



**Background:** Vodacom is Tanzania's lead MNO with 36% of total users. Vodacom's mobile money, M-PESA is the largest in Tanzania with 5 million customers and 6 million transactions a day. Over 200 businesses in Tanzania prefer the M-PESA payment ecosystem which provides ways to save, earn interest, and receive micro loans through the new M-PAWA promotion. This program was launched in May as a partnership with CBA bank and is a major shift in the mobile money market and a first in Tanzania for an MNO to offer a savings and loan product. An identical program named M-Shwari was introduced in Kenya through Safaricom's M-PESA earlier in 2012 and currently has 7 million customers who in the last 2 years have transacted more than USD 1.7 Billion and taken out loans worth USD 148 million (Mobile Money Africa 2014).

**Insurance Program:** In 2012 Vodacom Tanzania in collaboration with Heritage Insurance Company launched a micro-insurance program named, 'Faraja Insurance'. The service provided funeral insurance cover and was offered for free as loyalty reward for all customers who conducted at least 10 M-PESA money transfers a month. The program is still active although no longer marketed on Vodacom's website. It met limited success because of cultural resistance to funeral insurance (it brings bad luck).

**Infrastructure Footprint:** Vodacom has a countrywide presence. Vodacom Tanzania has 10.3 million customers and 82 outlets. M-Pesa has a majority market share of the over 150,000 mobile money agents in Tanzania (the exact number unknown).

**Transaction Platform:** M-PESA, other partnerships and widespread mobile money agents countrywide.

**Opportunity:** FINCA Tanzania currently uses M-Pesa for loan remittance. The proposed entity can continue to use M-PESA for premium collection, claims, remittance etc. Mobile Money Agents may also serve as collection points for IPF.

**Risk/Challenges:** Under the new regulations MNO's are required to have a micro-insurance agency license to distribute micro-insurance products. Training and implementation of MNO agents to adequately explain micro-insurance products can be costly and challenging to ensure positive market discovery. In addition the ability to show value from insurance through reduced churn, increased loyalty, and improved ARPU is also critical to the success of micro-insurance and MNOs. In addition, aligning adequate consumer protection in the event MNOs discontinue products is important to eliminate negative market discovery.



### Airtel & Airtel Money



**Background:** Airtel operates in 17 African countries. In Tanzania they are the second leader with 33% of users. Airtel and Airtel's mobile financial services, Airtel Money is growing rapidly in efforts to gain market share against Vodacom and Tigo. They currently have a partnership agreement to work with Microensure on micro-insurance products. Airtel money also presumably has a partnership with Metropolitan Life to distribute micro-insurance products (Stakeholder Interviews 2014).

**Insurance Program:** Airtel in partnership with Microensure offer a range of loyalty-based insurance products (life and funeral). Airtel is interested in expanding their product line, distributing insurance products through their Airtel Money platform (Stakeholder Interviews 2014).

**Infrastructure Footprint:** Airtel has countrywide service coverage with 9 million customers. They only have 11 outlets mostly in urban areas, although they have 10,000 mobile money agents.

**Transaction Platform:** Airtel Money, mobile money agents, retail outlets.

**Opportunity:** The FINCA proposed entity could use Airtel mobile money for premium collection, claims, and remittance etc. Airtel's interoperability with Tigo and Zantel coupled with low transaction costs has made it popular in Tanzania.

**Risks/Challenges:** Under the new regulations MNO's are required to have a micro-insurance agency license to distribute micro-insurance products. Training and implementation of MNO micro-insurance agents to adequately explain micro-insurance products can be costly and challenging to ensure positive market discovery. In addition the ability to show value from insurance through reduced churn, increased loyalty, and improved ARPU is also critical to the success of micro-insurance and MNOs. In addition, aligning adequate consumer protection in the event MNOs discontinue products is important to eliminate negative market discovery. Due to existing contractual relationships with other intermediaries Airtel may not be interested in additional partnerships.

## Tigo & Tigo-PESA



**Background:** Third in the market is Tigo with 23% of the market share. Tigo-Pesa is Tigo's interoperable mobile money platform with Airtel and Zantel.

**Insurance Program:** Tigo has partnered with Milvik Bima to offer an innovative life, funeral and health product (Tigo-Bima). Originally offered as a Pilot in 2012 they now have 350,000 clients. Initially a loyalty based cover, the product has moved to voluntary enrolment with payments deducted via airtime usage three times per month. Tigo-Bima is planning to announce a new insurance product soon, likely as part of the Tigo-Pesa financial services platform (Stakeholder Interviews 2014).

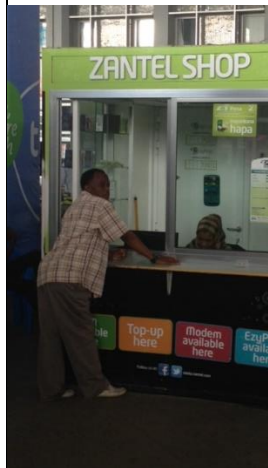
**Infrastructure Footprint:** Tigo has countrywide service coverage, 6.2 million subscribers and 31 retail outlets. They also have an extensive partner network through Tigo-Pesa.

**Transaction Platform:** Tigo-Pesa, mobile money agents, retail outlets.

**Opportunities:** The proposed entity could use Tigo-Pesa for premium collection, claims, remittance etc.

**Risks/Challenges:** Under the new regulations MNO's are required to have a micro-insurance agency license to distribute micro-insurance products. Training and implementation of MNO micro-insurance agents to adequately explain micro-insurance products can be costly and challenging to ensure positive market discovery. In addition the ability to show value from insurance through reduced churn, increased loyalty, and improved ARPU is also critical to the success of micro-insurance and MNOs. In addition, aligning adequate consumer protection in the event MNOs discontinue products is important to eliminate negative market discovery. Tigo is already partnered with Tigo-Bima for micro-insurance distribution.

## Zantel



**Background:** Zantel accounts for 7% of the market share in Tanzania. On mainland Tanzania, Zantel lost considerable market share in 2013, although they maintain a monopoly on Zanzibar and Pemba. Zantel EzyPesa is its mobile money transfer service popular in Zanzibar.

**Insurance Program:** None current. Zantel EzyPesa launched a micro-insurance product in 2012 which appears to have been discontinued. The product covered permanent disability medical insurance for accidental death. The product was voluntary with a daily premium of approximately *Tsh*150 and covered up to *Tsh*3 million. They had limited success.

**Infrastructure Footprint:** Zanzibar and Pemba. Limited new development on the Tanzania mainland.

**Transaction Platform:** Zantel EzyPesa, mobile money agents, retail outlets.

**Opportunity:** With 7% of the market-share and no active micro-insurance programs they could be an effective distribution partner in Zanzibar where they are most active and overlooked by other insurance intermediaries.

**Risk/Challenges:** Zantel has a diminishing market share in Tanzania And it is unknown if they have appetite for micro-insurance. According to stakeholder interviews, they've experienced management challenges in Tanzania over recent years (Stakeholder Interviews 2014). In addition, under the new regulations MNO's are required to have a micro-insurance agency license to distribute micro-insurance products. Training and implementation of MNO micro-insurance agents to adequately explain micro-insurance products can be costly and challenging to ensure positive market discovery. In addition the ability to show value from insurance through reduced churn, increased loyalty, and improved ARPU is critical to the success of micro-insurance and MNOs. In addition, aligning adequate consumer protection in the event MNOs discontinue products is important to eliminate negative market discovery.

### 3.5.3 Agriculture Value Chain


#### Context

With 80% of the Tanzanian population relying on farming and 26.8% contributing to the GDP, the agriculture value chain provides a unique but challenging distribution opportunity for micro-insurance in Tanzania. This distribution channel is broadly defined and includes cooperatives, associations, labor unions, processing plants, out-grower schemes, input supplier networks (seed/fertilizer companies) etc. Each of these channels have the potential to be effective aggregators for distribution, premium collection, claims processing, branding and advertisement of new products due to their large rural footprint and client network, particularly the larger aggregators such as Agri-processors, input shops, or storage facilities.


There is already a significant push to organize and institutionalize the agrarian population. Many agricultural coops have already been targeted by insurers like CRDB, African Life, and Alliance Life. Generally, however the agriculture value chain is under developed for insurance distribution due to capacity constraints. Where aggregators have capacity, scale is limited (FSDT 2012).



The most common agricultural commodities in Tanzania are coffee, sisal, tea, cotton, pyrethrum (insecticide made from chrysanthemums), cashew nuts, tobacco, cloves, corn, wheat, cassava (manioc, tapioca), bananas, fruits, vegetables; cattle, sheep, goats. Important exports include coffee, cashew nuts and cotton (CIA Fact Book 2014).

### 3.5.3.1 Market examples

<p><b>Kilimo Salama</b></p> 	<p><b>Background:</b> Kilimo Salama is a Syngenta company formed in Kenya in 2009. By 2013 it had insured over 187,000 farmers between Kenya and Rwanda. By 2017, Kilimo Salama aims to cover Kenya, Rwanda, Tanzania, and two other sub-Saharan African countries, reaching 500,000 farmers.</p> <p><b>Insurance Program:</b> Kilimo Salama conducted a feasibility study in Tanzania with funding from SCBF in 2013/14 and they are now implementing two pilot agriculture insurance programs through SCBF's product upscaling grant window in Northern Arusha Region and Southern Iringa Region.</p> <p><b>Infrastructure Footprint:</b> 187,000 farmers in Kenya and Rwanda. Expanding into Tanzania.</p> <p><b>Transaction Platform:</b> Leverage existing relationships with agricultural inputs and associations.</p> <p><b>Opportunity:</b> Kilimo Salama is seeking agricultural lenders to support its development initiatives. The proposed entity could provide lending and IPF support to Kilimo Salama network of farmers. Kilimo Salama is in the process of securing a micro-insurance agency license. The proposed entity could also upsell additional life products through the existing farmer network, circumventing the bundling challenges which limits Kilimo Salama from bundling products.</p> <p><b>Risks/Challenges:</b> Accessibility, affordability, scale/volume, lack of awareness/education among smallholder farmers. Irregular income stream (seasonal) making premium payments challenging. Lack of historical weather data for index insurance. Often there is no unified voice and where there is, it is poorly organized. Kilimo Salama already has an agency license and primarily are seeking ag-lenders, although IPF may also be a valuable and interesting proposition.</p>
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<p><b><u>Dodoma Agriculture Association (informal)</u></b></p>	<p><b>Background:</b> Informal farming organization located in central Tanzania near Dodoma. They currently grow sunflower and rice and are running an agricultural pilot beginning in December 2013.</p> <p><b>Insurance Program:</b> Pilot agriculture (yield-based) insurance underway with 5,000 farmers. Premiums are paid by a farm input aggregator They are interested in adding health coverage.</p> <p><b>Infrastructure footprint:</b> 60,000 individuals</p> <p><b>Transaction Platform:</b> Agriculture input aggregator. Premiums are deducted from value of crops at the end of each growing season.</p> <p><b>Opportunity:</b> The agricultural pilot is underway but the group, including the aggregator has expressed interest in developing a health product. Other options, including Ag lending or IPF may be possible.</p> <p><b>Risks/Challenges:</b> Limited opportunity to reach scale. Accessibility, Affordability, scale/volume, lack of awareness/education among smallholder farmers. Irregular income stream (seasonal) making premium payments challenging (this is solved by aggregator taking premium risk). Also for index insurance, a lack of historical weather data.</p>
<p><b><u>The Tanzania Federation of Cooperatives (TFC) Limited</u></b></p> 	<p><b>Background:</b> The Tanzania Federation of Cooperatives (TFC) Limited is a national cooperative umbrella organization that promotes, serves and coordinates the development and ongoing success of all cooperative societies in mainland Tanzania. It is an independent, non-governmental and non-partisan organization dealing with tobacco, cotton, coffee, cashew, cereal and other produce industries.</p> <p><b>Insurance Program:</b> None</p> <p><b>Infrastructure Footprint:</b> 700,000 members in 6,000 cooperative societies</p> <p><b>Transaction Platform:</b> Distribution through cooperative societies.</p> <p><b>Opportunity:</b> Target the national cooperative to discuss strategic partnership for micro-insurance. The FINCA proposed entity could collaborate on projects such as ag-lending and IPF to its members.</p> <p><b>Risk/Challenges:</b> Coordination among the cooperative societies will be challenging. Often there is no unified voice and where there is, it is poorly organized. Accessibility, affordability, scale/volume, lack of awareness/education among smallholder farmers. Irregular income stream (seasonal) make premium payments challenging. Also for index insurance, a lack of historical weather data.</p>

<p><b><u>Tanzania Horticultural Association (TAHA)</u></b></p> 	<p><b>Background:</b> TAHA is a business association grouping together all aspects of the horticulture industry in Tanzania. It brings producers, traders, exporters and processors of all horticultural products including flowers, fruits, vegetables, spices, herbs and seeds.</p> <p><b>Insurance Program:</b> None</p> <p><b>Infrastructure Footprint:</b> TAHA is the fastest growing farmer organization in the Tanzania. The exact member count is unknown.</p> <p><b>Transaction Platform:</b> Distribution through member network.</p> <p><b>Opportunity:</b> Target the business association to discuss their interest in micro-insurance. TAHA could apply for a micro-insurance agency license and partner with the FINCA proposed entity to collaborate on projects such as IPF and other products to its members.</p> <p><b>Risks/Challenges:</b> Accessibility, affordability, scale/volume, lack of awareness/education among smallholder farmers. Irregular income stream (seasonal). Lack of historical weather data for index insurance. Often there is no unified voice and where there is, it is poorly organized.</p>
<p><b><u>Mtandao Wa Vikundi Vya Wakulima Tanzania (MVIWATA) National Network of Farmers Groups in Tanzania</u></b></p> 	<p><b>Background:</b> MVIWATA operates in all regions of Tanzania, with members both on the mainland and Zanzibar. Its goal is to unite farmers and create a common voice to defend their economic, social, cultural, and political interests.</p> <p><b>Insurance Program:</b> None</p> <p><b>Infrastructure Footprint:</b> MVIWATA is a grassroots membership organization comprised of more than 100,000-150,000 individual small-scale farmers. It works on the national, middle, and local levels.</p> <p><b>Transaction Platform:</b> Distribution through National, middle and local levels.</p> <p><b>Opportunity:</b> Although largely a grassroots organization, FINCA could target the national and middle network level to discuss their interest in micro-insurance. Either MVIWATA could apply for a micro-insurance agency license and partner with the FINCA proposed entity to collaborate on projects such as IPF to its members.</p> <p><b>Risk/Challenges:</b> Accessibility, affordability, scale/volume, lack of awareness/education among smallholder farmers. Irregular income stream (seasonal).Lack of historical weather data for index insurance. Often there is no unified voice and where there is, it is poorly organized.</p>




### 3.5.4 Retail

#### Context

Retail stores like supermarkets, gas stations and electronics stores remain relatively undeveloped as insurance distribution aggregators in Tanzania; however, as the market evolves and with it awareness and trust of insurance increase, it is likely that new players will emerge as viable distribution channels. Retailers present good opportunities to serve as client aggregators due to their large footprint, and trusted, well-known products. In addition, bundling insurance with other retail products using over-the-counter sales methods can be effective strategies for reaching new customers. As has been found in other markets in Latin America, over time retailers will realize the value micro-insurance can bring to their products through increased sales and loyalty.

#### 3.5.4.1 Market examples

<p style="text-align: center;"><b>MeTL</b></p> 	<p><b>Background:</b> MeTL Group has diverse interests in trading, agriculture, manufacturing, energy and petroleum, financial services, mobile telephony, infrastructure and real estate, transport and logistics and distribution. Companies under MeTL are contributing an aggregate 2% of the Gross Domestic Product (GDP) of Tanzania. MeTL also owns its own insurance company, MO Insurance (formerly Golden Crescent).</p> <p><b>Insurance Program:</b> Corporate insurance.</p> <p><b>Infrastructure Footprint:</b> MeTL employs 20,000 people with 30 branches, and 100 retail outlets covering all regions of Tanzania.</p> <p><b>Transaction Platform:</b> Distribution through retail outlets and agriculture processing plants.</p> <p><b>Opportunity:</b> MeTL has an active insurance company, MO Insurance which is showing impressive growth in Tanzania and also interested in micro-insurance (previously they were involved underwriting some products with Microensure). MeTL also has diverse logistics and distribution channels, including agri-processors and they could serve as a distribution channel through its retail outlets or agriculture value chain. FINCA serve as a micro-insurance agent to MO Insurance. It could also partnering on new products like IPF.</p> <p><b>Risk/Challenges:</b> Potential lack of existing communication channels and existing payment platform with customer base. . Retail as delivery channels for insurance is largely untested and voluntary insurance uptake remains low. MeTL could secure its own agency license and distribute products on behalf of MO Insurance.</p>
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<p><b><u>Nakumatt / Shoprite</u></b></p>  	<p><b>Background:</b> Kenya based Nakumatt is rumored to be negotiating the purchase of Shoprite in Tanzania, securing its position as a leader in both countries.</p> <p><b>Insurance Program:</b> Shoprite currently sells funeral personal and family cover micro-insurance products through their stores in South Africa and they have expressed interest in expanding product offerings to Tanzania (Stakeholder Interview 2014).</p> <p><b>Infrastructure Footprint:</b> 3 locations in Tanzania</p> <p><b>Transaction Platform:</b> In-store sales</p> <p><b>Opportunity:</b> Shoprite currently sells funeral insurance in South Africa. According to one interview, they have expressed interest in expanding insurance offerings to Tanzania.</p> <p><b>Risk/Challenges:</b> Voluntary purchase of insurance is very low in Tanzania. Limited outreach with only three locations. It is critical to ensure reliable communication channels with members as well as premium collection methods.</p>
<p><b><u>AZAM</u></b></p> 	<p><b>Background:</b> The Azam Bakhresa Group is one of the leading food/beverage retailers in Tanzania with a reach into other parts of East Africa. The Azam Group sells commodities like ice cream, soda, water and juice and consists of agricultural processing companies, food &amp; beverage, logistics (shipping), petroleum and marine transportation.</p> <p><b>Insurance Program:</b> Corporate insurance for employees. No micro-insurance offerings.</p> <p><b>Infrastructure Footprint:</b> The Azam Bakhresa Group is involved in diverse distribution and agricultural processing companies in Uganda, Kenya, Malawi, Mozambique, Rwanda, Tanzania and Zanzibar which can be used as micro-insurance aggregators.</p> <p><b>Transaction Platform:</b> Distribution through food/beverage retailers, logistics, agri-processing facilities and other retail products.</p> <p><b>Opportunity:</b> Partner with Azam Group through their agricultural processors and distribution channels. Serve as micro-insurance agent and premium financier.</p> <p><b>Risks/Challenges:</b> Lack of existing communication channels and payment platform with customer base may be a major challenge. . Retail as delivery channels for insurance is largely untested and voluntary insurance uptake remains low with most products embedded. Targeting distribution through agri-processing facilities coupled may provide good opportunities.</p>

### 3.5.5 NGOs/Foundations

#### Context

Non-governmental organizations (NGOs) and non-profit foundations represent a humanitarian service that people trust and can rely on. Affiliating micro-insurance with these trusted organizations could mean breaking down the boundaries of mistrust that exist among rural clients. NGOs also frequently have large client bases enabling them to act as effective aggregators, although many will not have the capacity to distribute insurance alone. It is possible to leverage their footprint and achieve scale through their existing communication channels. In certain cases, some may already have established payment or financial transaction mechanisms to which an insurance premium can be added.

#### 3.5.5.1 Market examples

<p><b>Vodacom Foundation</b> <u>(partnered with CCBRT)</u></p> 	<p><b>Background:</b> Vodacom Foundation’s mission is to support disadvantaged and marginalized groups through poverty alleviation initiatives including education, health, and social economic empowerment. Vodacom Foundation provides health services to young mothers and provides funding for other treatable disabilities.</p> <p><b>Insurance Program:</b> None</p> <p><b>Infrastructure Footprint:</b> As of March 2014, the program estimates it could benefit 700,000 women across Vodafone’s emerging markets between now and 2020 with India, Tanzania and DRC representing the largest opportunities. Through CCBRT they are constructing a new hospital in Dar es Salaam expected to be operational at the end of 2014 or 2015.</p> <p><b>Transaction Platform:</b> Vodacom Foundation has an extensive member network through its various initiatives.</p> <p><b>Opportunity:</b> Vodacom Foundation has a number of initiatives including a health services initiatives called “text for treatment” program. The program provides funding and treatment for a wide range of health conditions, including non-emergency procedures related to maternal health and pre and postnatal appointments. The proposed entity could partner with Vodacom Foundation to offer insurance products and IPF.</p> <p><b>Risk/Challenges:</b> Aligning motives and goals may be challenging. Organized client/patient records, database and payment platform.</p>
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**Tanzania Red Cross  
Society (TRCS)**



**Background:** TRCS is a voluntary, independent humanitarian organization in affiliation with the worldwide Red Cross and Red Crescent Societies.

**Insurance Program:** None

**Infrastructure Footprint:** TRCS has employed staff in 15 out of the 30 regions where TRCS is operational. In the Tanzania mainland, the Society has 280 branches with over 12,000 members and more than 10,000 volunteers. 36% of the members and volunteers are women.

**Transaction Platform:** Distribution through existing branch network.

**Opportunity:** The FINCA proposed entity could partner with TCRS and distribute health and other insurance products through its existing member network.

**Risks/Challenges:** Aligning motives and goals. Organized client/patient records, database and payment platform.

### **3.6 Recommendations:**

#### **3.6.1 Distribution Opportunities Available Immediately**

##### **FINCA**

One near-term distribution opportunity is to improve distribution, sales and services through FINCA's existing branch network. The new regulations require FINCA to secure an agency license to distribute micro-insurance products to its customers; therefore using its license, FINCA can partner and distribute products with insurers such as Metropolitan Life, African Life, MO Insurance, or Heritage Life. Metropolitan Life for example has the auspicious goal of adding 1 million new customers by 2017 and during the course of the Feasibility Study they proposed designing micro-insurance products for FINCA's existing and projected clientele. Over time as FINCA's Express Agent program expands, FINCA could evaluate distribution opportunities through these new channels.

In parallel, FINCA could introduce premium financing for its existing products as well as build the basis for offering new voluntary products in the future. Simultaneously, FINCA Tanzania can work with its other African subsidiaries to improve regional insurance portfolio through improved contract negotiations and optimization of its programs and services.

##### **Other Financial Service Providers**

Forming strategic partnerships with other financial service providers like MFIs, SACCOs, and VICOBA's with operations near FINCA's branches may present distribution opportunities to reach new customers. FINCA may also be able to use its agency license to distribute products in partnership with the organization as well as offer alternative products like IPF.

##### **Kilimo Salama:**

Kilimo Salama's goal is to reach 500,000 farmers in the next five years throughout eastern Africa. They have secured a broker license and are in the process of securing a micro-insurance agency in Tanzania. With funding from SCBF they are actively designing and implementing two agriculture pilots in Northern Arusha Region and Southern Iringa Region. One of the greatest challenges farmers face are weather risks and the lack of finance, with many financial institutions considering smallholder farmers too risky to lend to (Kilimo Salama Feasibility Report, 2011, AgFiMS Tanzania Technical Demand Side Report). FINCA could partner with Kilimo Salama to provide ag-lending as well as insurance premium financing.

#### **3.6.2 Distribution Opportunities in 3-5 years**

A 3-5 year distribution goal is to improve FINCA's regional capabilities while simultaneously building the basis for new service companies in the micro-insurance market. This can be done through contract negotiations to optimize its existing portfolio at the subsidiary level while expanding its existing product portfolio to include a broader range of micro-insurance products and services. This ultimately may include expanding FINCA's reach beyond its existing customer base into the voluntary retail market, including niche products like insurance premium financing. In Tanzania, FINCA can focus on improving direct sales and distribution through its branch network and Express Agent network which has the goal of increasing its client base from 120,000 to 300,000 clients by 2017 through the MasterCard ADC Initiative.

## 4 Qualitative Customer Interviews

Four focus groups were held in July 2014 to ascertain views from FINCA clients about insurance in rural and urban Tanzania. This included a discussion about the different types of risks they face, their understanding and desire to have insurance, as well as topics around affordability of insurance and participants' use of savings. All of the participants were familiar with insurance and its value, although few of them have seen the real benefit personally. Most of their experiences have been negatively associated with poor service from government medical insurance. That said, participants' commented that if the right value proposition was available at an affordable price they would be interested and willing to buy insurance. Participants were very interested in medical/health insurance, life insurance with education benefit, property insurance, and agriculture insurance. Urban participants highlighted affordability and the timing of premiums as a barrier to insurance uptake. One example was a private medical insurance plan offered by Strategis which costs *Tsh* 200,000 per year which needs to be paid in one annual premium. Participants suggested that they would be much more willing to purchase the insurance if the premiums were split into installments and paid monthly or quarterly, much like their existing loan payments. They highlighted that cash-flow was difficult, particularly in rural areas reliant on agriculture, thus products like insurance premium financing could be a very attractive proposition. Below is a detailed summary of each of the focus groups.

### 4.1 Focus Group 1: Rural - 4 Women from Village Banking

1. Sophia Chagua Uliza
2. Tausi Huseni Athumani
3. Amina Said Omary
4. Tausi Salum Matata

**Moderator:** Chiwango Erasto – Marketing Officer

#### • Understanding the Focus Group & demographics

##### ○ Gender, livelihood, geographic location of the focus group participants

The first focus group was made up of four female clients from a rural village named Mipalala in Bwiligu ward, Coastal region, 7 kilometers from a larger town named Chalinze. The participants are rural, low-income village banking clients of FINCA.

##### ○ There was a discussion about FINCA and why the participants are customers of FINCA, for how long, the types of businesses they are involved in, their experience with FINCA and what they would like differently.

All of the participants are involved in agricultural activities as their primary source of income generation. They have small retail businesses like selling charcoal, vegetables, and small roasted fish in the streets while others have small businesses selling donuts (snacks). The primary reason they joined FINCA was to secure capital to boost their businesses and generate additional income to cover family needs like daily meals, medical services and school fees. Harvests from agricultural activities,



which occur seasonally, have primarily been used on food stock, although some have been sold and the money used for investments like buying a land for living or farming, as well as initial capital to start a business, etc. Their loans sizes from FINCA range from *Tsh* 200,000 to 300,000 (max). The participants have been with FINCA for nearly 1.5 years.

- There was a discussion about Savings and participants' understanding of savings, how they save and if they have savings accounts with FINCA or other banks or systems (informal etc.)?

The participants only use FINCA for loans. Although they have savings accounts with FINCA, they don't save their money because of challenges accessing their accounts due to the distance to the nearest branch in Morogoro, 100km away. The trip sometimes takes more than two hours to travel one way. It is also expensive, with public transport charging not less than *Tsh* 7,000 per round trip.

Participants currently have group saving accounts with different banks in order to be eligible to receive Group Loans. As a group, they contribute a certain amount of money to open an account with the bank, different from FINCA, which requires an upfront deposit in order to qualify for the Group Loan. All of the investment decisions of how the loan is used is decided as a group and invested as a group. Member own shares in the group which is proportional to the amount a member has contributed to the savings. Members of the group benefit from profits generated with the profits proportionally distributed to each member. This type of group loan is different from the one provided by FINCA whereby group members team up for the purpose of guarantors only, and the loan is given individually to each member with differing amounts depending on business capacity to facilitate loan repayments. In addition, participants save informally whereby they meet once a week in a group and contribute certain amount to one member; the rotation continues each week to meet all members.

- Do they use insurance?  
Currently participants only use the credit-life insurance provided by FINCA. Previously they enrolled in medical insurance provided by the local government authority, however they have stopped participating due to poor service.
- What is their understanding and perception of insurance?  
In general, participants understand the concept and value of insurance and have a positive perception of its benefits, although their experience has not been positive due to poor servicing by service providers.



- **Income:**

How do participant's use their remaining monthly income after all expenses have been paid, including loan repayments?

- Savings for new business
- Savings for emergency like family medical service

- **Risks**

Common risks they are aware of or have experienced:

- Sickness of the family
- Some of their customer's refuse to pay when they buy their products on credit
- Some neighbors borrow money but fail to payback
- Death
- Fire
- Theft
- Weather

- **Understanding and barriers to insurance**

There were questions regarding participant's understanding of insurance and how it works.

- Before joining FINCA they had heard from motorcycle and car owners that they pay for insurance. It was their understanding that the purpose is to recover their properties when they get in accidents.
- Since joining FINCA they have learnt more about insurance and they understand that some percentage of their loan repayments covers insurance.
- Other insurance products they were aware of:

- Car insurance
- Medical insurance provided by the local government:

The insurance coverage is provided to the family (Husband and wife + 3 children) for *Tsh.* 10,000 per year (USD\$6.25/year). They have access to receive service at government hospitals only. A challenge is the distance from their homes to reach these hospitals. Some refuse to renew and prefer to go to private hospitals since the cost of traveling to government hospitals is higher than paying medical charges to private hospitals. In addition, sometimes they have not been properly diagnosed by government hospital doctors and they have had to go to private hospitals and get diagnosed before going back to the government hospital for medicine. Other times the medical assistant assumes what the patient is suffering from and gives them medicine without an evaluation from a doctor. Lastly participants complained that they have been given medicine without being checked by a doctor or assistant altogether.

- **Affordability and willingness to pay for insurance**

- All of the participants are willing to register for medical insurance, and they are willing to pay for it.

- **Types of Insurance services:**

What types of insurance are they most interested in?

- 1<sup>st</sup> participant mentioned the products below. She was willing to pay for it as long the price is affordable. She also mentioned her husband is enthusiastic about insurance and willing to pay for it;
  - Insurance for education of their children
  - Insurance for livestock
  - Insurance for agriculture
- 2<sup>nd</sup> participant mentioned the following:
  - Retirement/Pension insurance
  - Education insurance for her children
  - Medical insurance for the family
- 3<sup>rd</sup> participant:
  - Retirement/ Pension insurance
  - Education insurance
  - Medical insurance
- 4<sup>th</sup> participant:
  - Retirement/Pension insurance
  - Education insurance
  - Medical insurance

- **What is their current use of Technology**

- All participants use mobile phones for loan remittance through M-PESA mobile money services.

## 4.2 Focus Group 2: Rural – 6 Men from Village Banking

1. Adam Mohamed Edua
2. Abdallah Rashid Tegulo
3. Gervasi Hariri Chambuso
4. Ramadhani Amri Mtamani
5. Rashid Sadala Maisha
6. Mohamed Ally Rashid

**Moderator:** Chiwango Erasto – Marketing Officer

- **Understanding the Focus Group & Demographics**

- **Gender, livelihood, geographic location of the focus group participants**

This focus group was made up of six male clients from a rural village named Mipalala in Bwiligu ward, Coastal region, 7 kilometers from a larger town named Chalinze,. The participants were generally rural, low-income clients of FINCA.

- **There was a discussion about FINCA and why the participants are customers of FINCA, for how long, the types of businesses they are involved in, their experience with FINCA and what they would like differently.**

The majority of participants were involved in agricultural activities, though they sell charcoal in small scale as wholesalers (selling in bags @ 70kgs). They also own small retail shops making handicraft products etc. The primary reason participants joined FINCA is for additional capital to boost their second businesses during low season as they wait for seasonal agriculture activities. Most of the income generated from businesses is used to cover family needs like daily consumables, medical services and school fees. In addition, part of the loan is used to support agricultural activities. The loans sizes from FINCA range from *Tsh* 200,000 to 450,000 (max). Participants have been with FINCA for almost 1.5 years.

- **There was a discussion about Savings and participants' understanding of savings, how they save and if they have savings accounts with FINCA or other banks or systems (informal etc.)?**

The participants only use FINCA for the loans. They do not have savings accounts with FINCA, however many have group savings accounts with different banks, which they hope to get additional group loans. Participants currently have group saving accounts with different banks in order to be eligible to receive Group Loans. As a group, they contribute a certain amount of money to open an account with the bank, different from FINCA, which requires an upfront deposit in order to qualify for the Group Loan. All of the investment decisions of how the loan is used is decided as a group and invested as a group. Member own shares in the group which is proportional to the amount a member has contributed to the savings. Members of the group benefit from profits generated with the profits proportionally distributed to each member. This type of group loan is different from the one provided by

FINCA whereby group members team up for the purpose of guarantors only, and the loan is given individually to each member with differing amounts depending on business capacity to facilitate loan repayments. They also save informally whereby they normally meet once in week as group and contribute a certain amount to one member; the rotation continues each week to meet all members.

- **Do they use insurance?**

Participants only use the credit-life insurance provided by FINCA compulsory with their loans. Previously they enrolled in medical insurance provided by the local government authority, however they have stopped participating due to poor service.

- **What is their understanding and perception of insurance?**

In general, participants understand the concept and value of insurance and have a positive perception of its benefits, although their experience has not been good due to poor servicing by service providers.

- **Income**

How do participant's use their remaining monthly income after all expenses have been paid, including loan repayments?

- Save using their Mobile phone savings account (M-PESA). The goal is to use the savings to expand their businesses or buy additional building materials.
- Accumulating wealth to expand existing agricultural activities.
- Add to their existing business in increase profit to cover family needs like schools fees etc.
- Accumulate and invest on the farm during rainy season (prep for the planting season by hiring workers or farm equipment).
- Contribute to group savings program for a certain period of time. Once the investment has matured invest in another business type or buy livestock (chickens). Sometimes money is spent for extra tuition fee for their children during their holidays.
- Accumulate savings with an informal savings group and invest the savings in agricultural activities like hiring farm equipment, expansion etc.

- **Risks**

Common risks they are aware of or have experienced

- Low harvest due to low rain season (drought)
- Weather/Hurricane
- Failure to pay school fees due to financial difficulties

Sickness which result in failed production activities meant to generate family income (temporary disability)

- **Understanding of insurance**

There were questions regarding participant's understanding of insurance and how it works

- All of the participants' are aware and understand insurance.
- It is their understanding that insurance is meant to protect a person when facing disasters. Insurance will compensate the loss of business or other event when the unexpected happens.
- In case of death to client/family member, an amount as condolence is provided.
- They are aware of several types of insurance which allow businessmen or farmers to participate.
- They are familiar with medical insurance which is apart from FINCA insurance. Four of the members have some form of medical insurance.

- **Barriers to insurance**

- Poor service
- Accessibility in terms of points of service delivery are very rare and distant, limiting a client's options.

- **Affordability and willingness to pay for insurance**

- All of the participants' are willing to register for medical insurance, and willing to pay for it.
- Common practice, they spend *Tsh* 10,000/year fee for government medical insurance. They are willing to pay *Tsh* 15,000–25,000 per year if they are guaranteed good quality service, *Tsh* 50,000 (to cover all household members with 2 payments intervals).

- **Types of Insurance services**

What types of insurance are they most interested in?

- Insurance for agricultural activities
- Insurance to protect their houses against disasters like fire, hurricanes, etc
- Education Insurance
- Medical Insurance

- **What is their current use of Technology**

- All participants use mobile phones for loan remittance through M-PESA mobile money services.

#### 4.3 Focus Group 3: Urban – mixed gender– Individual Business loans and Small Group loans

1. Said Ndava – Ilala market – Selling grains – Small Group Loan Client - Male
  2. Melisiana Biniface Seme – Salon & Boutique – Small Group Loan client – Female
  3. Prisca Mkinga – Saloon – Business Loan client – Female
  4. Mohamed Abdi – Wholesaler in the market – Small Group Loan client – Male:
- Moderator:** Chiwango Erasto – Marketing Officer

##### • Understanding the Focus Group & Demographics

###### ○ Gender, livelihood, geographic location of the focus group participants

Participants in the third focus group were 2 male and 3 female clients. All of the participants' live in urban districts of Dar es Salaam City: Mbezi, Tabata and Kimara in Ilala and Kinindoni.

###### ○ There was a discussion about FINCA and why the participants are customers of FINCA, for how long, the types of businesses they are involved in, their experience with FINCA and what they would like differently.

Business capital is the key factor which brought them to FINCA; the process of getting loan and repayments methods seems easy compared to other institutions. They have been with FINCA for a minimum of one year while the longest client of FINCA is 4 years. Three of the participants access Small Group loans while one has a Business Loan (Individual loan). The loan size from FINCA ranges from Tsh 1,000,000 to 2,500,000 for Business Loan, while Small Group Loans range from Tsh 800,000 to 1,400,000.

###### ○ There was a discussion about Savings and participants' understanding of savings, how they save and if they have savings accounts with FINCA or other banks or systems (informal etc.)?

Apart from having a loan account with FINCA, two of the participants have savings account to save extra money during loan repayments. Other participant's use mobile banking (M-PESA) to save their daily remaining balances.

###### ○ Do they use insurance?

Although they are familiar with different types of insurance products, none of the participants had additional insurance other than credit-life embedded in their loans.

○ **What is their understanding and perception of insurance?**

In general participants' understood the importance of insurance and they were very receptive to appropriately designed products with strong value propositions and services.

● **Income**

How do participant's use their remaining monthly income after all expenses have been paid, including loan repayments?

- Keep extra income as savings
- Accumulate for school fees
- Use savings for building materials/construction
- Keep extra income as emergency money for the family in case of illness, etc

● **Risks**

Common risks they are aware of or have experienced

- Lost inventory due to an accident during transportations (often accumulated savings helps them out during this time of need.)
- Theft of goods and money when traveling to purchase or transport inventory.
- Permanent disability from sudden, unexpected disease like stroke
- Theft of inventory

● **Understanding of insurance**

There were questions regarding participant's understanding of insurance and how it works

- They all know and are away of insurance
- Health Insurance
- Insurance to cover different disasters
- Motor vehicle insurance

● **Barriers to insurance**

- Their experience is that service tends to be different once they've enrolled (service worsens). They felt there was too much back and forth and always additional complications once they make a claim. It is unclear if this was from personal experience or second-hand.
- Buying or paying the insurance fee is the greatest barrier to insurance. Participants' felt there is too much traffic on the roads which undermine their efforts to join different insurance programs. They felt transactions via mobile phone are the best option.
- Accessibility in terms of points of service delivery are limited and often far away, limiting a person's options.
- Queuing at a cashier is also a large barrier to insurance, taking time away from their business. They felt mobile banking is good solution.
- In order for clients to go to the cashier and do transactions/payments, they normally need to accumulate reasonable amounts of cash. This tempted clients to spend the



small amount accumulated on other issues which may arise. Through mobile banking they can transact any small amount they get which makes it easier to accomplish payments.

- **Affordability and willingness to pay for insurance**

- Some participants suggested medical insurance with premium fees should be included on loan payments. They felt insurance premiums could be offered similar to loan terms e.g. 3 months, 6 months, 9 months etc. This would make it more affordable to all classes of clients from those with very small businesses with small loans up to those with big businesses and larger loans.
- In addition to the government provided medical insurance which costs *Tsh*10,000/year, there is a private medical insurance provided by Strategis Insurance which charges a minimum of *Tsh*200,000/year (USD\$125). The payment is currently charged in a one-time premium for the full amount to receive the service. Participants recommended payments could be billed on a monthly installment basis, making it much more affordable to clients. *Effectively participants are requesting insurance premium financing.*
- One example from Equity Bank discussed provides medical insurance to its clients and deducts *Tsh* 20,000 per month to pay for the insurance premium.

- **Types of Insurance services**

What types of insurance are they most interested in?

- Medical insurance
- Insurance for disasters like fire, flood

- **What is their current use of Technology**

- All participants use mobile phones for loan remittance through M-PESA mobile money services.

#### 4.4 Focus Group 4: Urban – mixed gender - Individual loans and Small Group loans

1. Kijakazi Sufi – Saloon – Business Loan Client – Female
2. Joseph Kessy – Small retail shop/store which sells soft drinks – Business Loan Client – Male
3. Happinessa Mkapu – Small retail shop/store which sells drinks and snacks (Beer, Soda, etc.) – Small Group Loan Client – Female
4. Juma Nkoba – Tailoring – Business Loan Client – Male
5. Festo Makota – Selling second-hand clothes – Business Loan Client – Male

**Moderator:** Chiwango Erasto – Marketing Officer

- **Understanding the Focus Group & demographics**

- **Gender, livelihood, geographic location of the focus group participants**

Participants in the fourth focus group included 2 Female and 3 Male clients. All of the participants live in urban districts of Dar es Salaam City like Ilala, Kigogo, Tabata, Yombo and Chanika.

- **There was a discussion about FINCA and why the participants are customers of FINCA, for how long, the types of businesses they are involved in, their experience with FINCA and what they would like differently.**

Services and fast loan delivery are the key factors that attracted them to FINCA. The longest FINCA customer has been with FINCA for more than 5 years and the newest client is 1 year. Participant's businesses mainly are retail selling soft drinks, providing saloon services, tailoring and clothes. Their loan size range from Tsh 1,000,000 to 2,500,000 for Business Loan, while Small Group Loans range from Tsh 800,000 to 1,400,000.

- **There was a discussion about Savings and participants' understanding of savings, how they save and if they have savings accounts with FINCA or other banks or systems (informal etc.)?**

Some of the participants had saving accounts with other banks before FINCA became a deposit taking institution. It is unclear if they have savings accounts now with FINCA. Other participants use mobile banking services (M-PESA) to save any extra income after home expenditures.

- **Do they use insurance?**

They are familiar with insurance and some have used it in the past. Currently they are only using the insurance embedded with their loan from FINCA.

○ **What is their understanding and perception of insurance?**

Participants like the concept of insurance although they have been disappointed with the existing insurance providers. They felt the existing providers do not care about the client's needs and delivery of high quality service, rather they focus on premium collection.

● **Income**

How do participant's use their monthly remaining income after all expenses have been paid, including loan repayments?

- Buy clothes
- Keep savings to be used later for shopping for the family
- Keep savings as emergency cash for the family to cover sickness, death, etc.
- Accumulate savings to renovate their business office or to boost business capital during bad seasons.

● **Risks**

Common risks they are aware of or have experienced

- Long term Sickness
- Fire accident
- Theft (most banks/institutions don't compensate for losses if theft occurs)
- Taking care of family member with long-term illness, which reduces potential to earn income.

● **Understanding and types of insurance**

There were questions regarding participant's understanding of insurance and how it works. The participants' understood the value and benefit of insurance and were interested in the following products:

- Medical insurance
- Personal Accident insurance
- Motor vehicle insurance
- Property insurance

● **Barriers to insurance**

- Business conditions are the key factors to decide whether to enroll for insurance or not. If their business condition is bad it is difficult to plan for insurance.
- Some do not know where to purchase insurance for medical services.
- Some participants felt there was limited education on existing insurance products.
- Participants felt many insurance companies do not target low-income customers like themselves, rather focusing on corporate insurance.
- Some participants are hesitant to enroll after hearing complaints about poor services provided by insurance companies.

- **Affordability and willingness to pay for insurance**
  - Participants are willing to pay for insurance on a monthly basis similar to their loan payments.
  - Participants recommended different payment options to pay for insurance either as a one-time payment for the entire premium or by splitting the payment into installments on a monthly basis.
  
- **Types of Insurance services**

What types of insurance are they most interested in?

  - Medical insurance
  - Insurance to business place/office
  
- **What is their current use of Technology**
  - All participants use mobile phones for loan remittance through M-PESA mobile money services.



# **Chapter 5, 6, 7, & 8 REDACTED for Confidentiality**

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