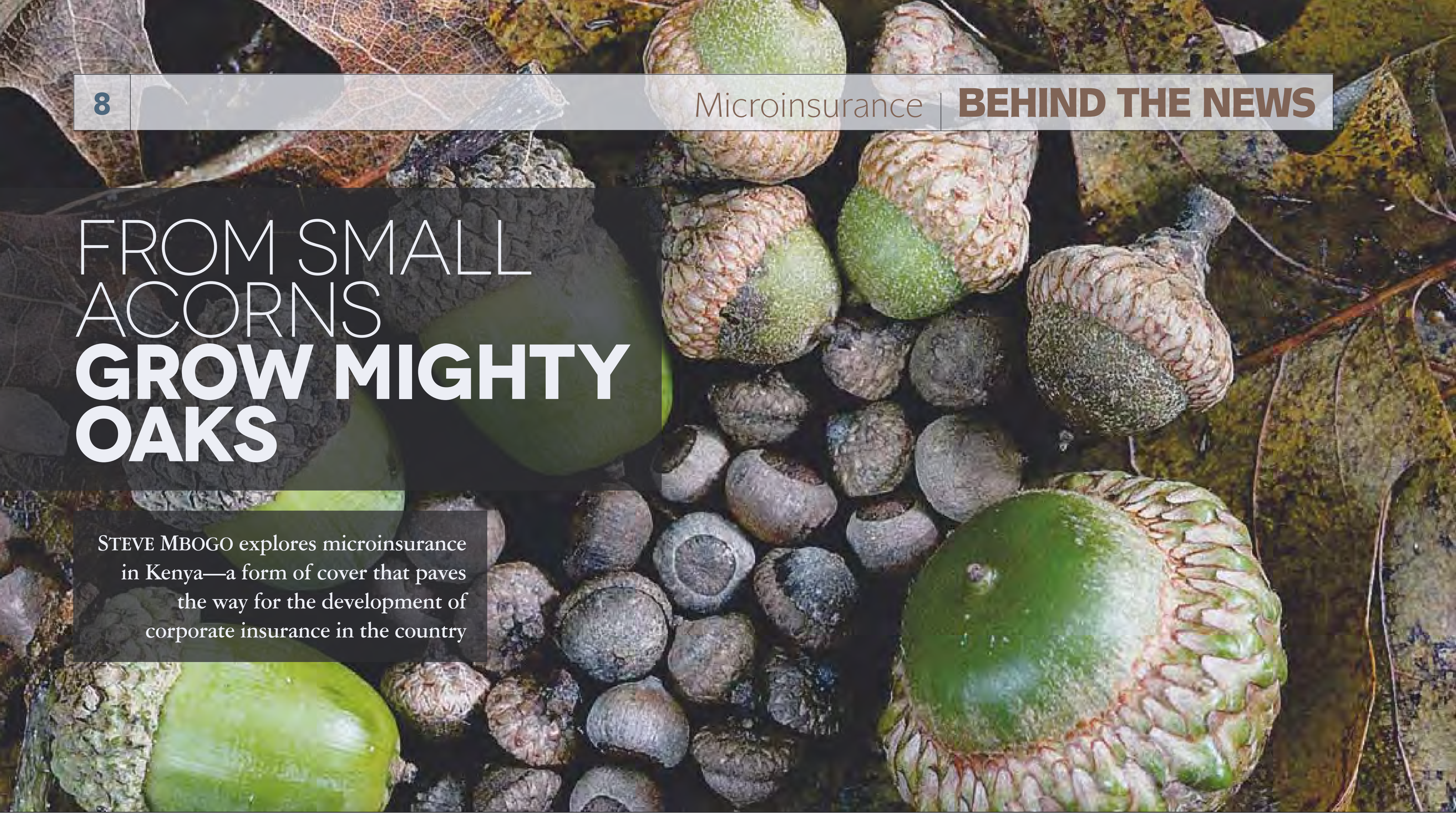

FROM SMALL ACORNS GROW MIGHTY OAKS

STEVE MBOGO explores microinsurance in Kenya—a form of cover that paves the way for the development of corporate insurance in the country

MICROINSURANCE IS THE NEXT BIG GROWTH area for Kenya's insurance industry, as formerly risk-averse low income earners become more aware of the need to secure their assets and lives, opening a new opportunity for insurance companies to improve their cashflow.

A significant number of the country's 45 insurance companies have started microinsurance departments, with those that have not either making acquisitions of pro-low income finance institutions as an entry point or going back to the boardroom with consultants to lay a strategy for entry into this emerging class of business.

Among the most recent entrants is Old Mutual Kenya, which has acquired Faulu Microfinance, a microfinance bank lending to low income earners. The intention is to enable the company make entry into low income financial services offerings including microinsurance, says Old Mutual Kenya CEO Peter Mwangi.

"We acquired Faulu Microfinance with the intention of selling insurance to Faulu's customer base. Faulu's roots in microfinance allow us to develop our microinsurance capability with a partner that has a lot of experience in this market segment having been in it for many years," says Mr Mwangi.

"Currently, we are working on financial education initiatives to make Faulu customers aware of our insurance offerings. We are quite encouraged given the level of sales that has come through so far," he adds.

Mr Mwangi sees the growth of microinsurance as being in tandem with the growing economic fortunes of the country.

"People are earning more and hence saving more. The country is expected to experience economic growth of between 6% and 7% over the medium term so we expect to continue experiencing strong growth," he says.

MEETING DEMAND

Leading insurance companies like UAP, CIC, APA, Britam and UAP have fully fledged microinsurance departments and are currently engaged in research and development that will enable them to release products that meet the specific needs of the target market.

Key sectors that promise to drive microinsurance penetration in Kenya include the transport industry, in particular the motorbike transport sector locally referred to as Boda Boda.

CIC Insurance has come up with a product that retails for one Kenyan shilling a day, or about $4 a year, that offers personal accident cover to the motorbike riders, among other benefits.

Another sector driving the growth of microinsurance is small scale commercial farming, which has taken root in Kenya as the majority of farmers with smaller holdings opt to undertake farming as a business, unlike previously when they farmed primarily to provide food for the family.

For instance, in Kirinyaga County in the central region of Kenya, a dairy cooperative society has taken insurance for all its supplier farmers. Premiums are deducted from the farmers' milk delivery payments to pay for insurance of their cows.

Chairman of Kirima Dairy Cooperative Society, Samuel Gachoki Kabiru, says the decision had been made after farmers lost 60 cows last year, worth about $67,000, because of various diseases.

"We want to ensure that our farmers make financial recovery after loss of their cows so that they are able to purchase new cows and continue delivering milk and therefore maintain their income from milk," says Mr Kabiru.

The society partnered with Majani Insurance Brokers. The policy covers cattle, goats, pigs, poultry and sheep due to death arising from: lightning, internal and external injury, calving and pregnancy complications, fire, windstorm, snake bites and flooding.

It also covers deaths resulting from diseases of a terminal nature certified by a veterinary officer, emergency slaughter on a veterinary officer's advice, theft of stock in premises housing the insured livestock or in paddocks or when the animals are in transit to market, or to a new farm, animal shows and exhibitions.

Marketing manager of Majani Insurance Brokers, Pauline Mwangi, says more farmers are recognising the value of insurance and this is driving sales.

"We have noticed a surge in demand for microinsurance among small scale farmers as they increase their understanding of the value of buying an insurance policy. This has been done through education and awareness but, more importantly, meeting farmers' expectations regarding efficiency in the compensation process," she explains.

OTHER DRIVERS

Savings and Credit Cooperative Societies (SACCOs) provide another growth frontier for microinsurance products. Some SACCOs have now been allowed to sell microinsurance products. The SACCO concept is very popular in Kenya across all income classes. SACCOs have an estimated membership of nine million people, providing a base for mass uptake of microinsurance products.

The rise of mobile phone-enabled payment systems is also another growth driver of microinsurance. Most of the microinsurance vendors have chosen mobile money payment systems as the main premium and claims payment platform, because it has helped lower transactions costs.

The high penetration of mobile phones including among low income earners means microinsurance product vendors are able to serve the mass market without incurring lots of operational costs.

GROWTH POTENTIAL

Currently, it is estimated that there are at least one million users of microinsurance products in Kenya, representing about 2.5% of the entire population. Insurance penetration in Kenya as a whole is 3.9% according to the Insurance Regulatory Authority (IRA).

Immediate former CEO of CIC Insurance, Nelson Kuria, who is considered the father of microinsurance in the east Africa region, says the growth potential for microinsurance is enormous but product pricing and high administrative costs are major impediments to the development of the industry.

"Innovation to address the pricing and product relevance will be the game-changer in microinsurance growth because demand is there," he says.

During a recent educational and awareness workshop on microinsurance in rural Kenya, insurers that participated in the event expressed surprise at the level of demand for the products but it emerged that there is disconnect between some of the products in the market and what the market really requires.

The workshops were sponsored by Continental Reinsurance, a leading reinsurance company in Africa, and organised by rural-based media house Kirinyaga Star and Embu Star newspapers under the Champions of MicroInsurance initiative.

"As lead sponsor, Continental Reinsurance will continue to be associated with the initiative, which we trust will go a long way to accelerating the uptake of microinsurance products at grassroot levels," says Continental Re's CEO, Calisto Ogaye.

Other sponsors are CIC Insurance, UAP Insurance, APA Insurance and Majani Insurance Brokers.

"This is a good initiative," says Tom Gichuhi, CEO of the Association of Kenya Insurers.

GLOBAL INTEREST

The growth of microinsurance in Kenya has also attracted global players. US-based firms Grameen Foundation, Opportunity International and Clifford Chance, along with Kenya's Penda Health and MicroEnsure from the UK, recently launched an initiative called the 'Uzima Project' in Kenya, with the aim of providing health microinsurance solutions. In addition to receiving financing and insurance, the insured will also receive mobile phone reminders and messages promoting good health practices.

Jubilee Insurance Company of Kenya recently partnered with UmandeTrust and CITADEL Microinsurance to provide microinsurance solutions for low income earners in Kenya. The move is expected to boost Jubilee's life portfolio and increase insurance penetration in Kenya.

Swiss Re also made an entry into Kenya's microinsurance sector when it recently acquired LeapFrog Investments' stake in Apollo Investments Limited, the parent company of APA Insurance of Kenya.

LeapFrog had invested $14m in APA in 2011, money that helped the Kenyan company launch health microinsurance products.

SOCIETAL BENEFITS

The growing use of health microinsurance products in Kenya has helped reduce maternal and child mortality rates, according to a recent report by the United Nations.

"As a result of this system, more mothers in Kenya are now attending more antenatal visits and are able to opt for a skilled birth procedure through microinsurance schemes," says the report—*Saving Lives, Protecting Futures*.

Kenya's under-five mortality for every 1,000 births has reduced by 11.1%, while maternal mortality reduced by 13% between 2010 and 2015.

The growth of microinsurance has also prompted the IRA to release the draft Kenya Microinsurance Policy Paper, which will form the basis of regulation of the sector.

Among the recommendations of the policy are that compensation should not take more than 10 days once the relevant documents are provided by the claimant. Compensation for funeral claims should be completed within 48 hours.

It also recommends that minimum capital for the microinsurance companies should be Ksh50m. SACCOs will be allowed to own microinsurance companies as well as licensed aggregators. In addition, it recommends the setting up of a Microinsurance Compensation Fund.