Microinsurance is the next big growth area in Kenya’s insurance industry, as formerly risk-averse low income earners become more aware of the need to secure their assets and lives, opening up opportunities for insurance companies to improve their cashflow.

A significant number of the country’s 45 insurance companies have ventured into microinsurance departments, with those that have not either making acquisitions of pre-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 microfinance allows 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 $0.4 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 commercial farming, unlike previously when they farmed primarily to provide food for the family.

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

Chairman of Kinima Dairy Cooperative Society, Samuel Gachuko Kabiri, 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 Kabiri.

The society partnered with Majani Insurance Brokers.

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

Mr Kabiri also notes 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 where the animals are at 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

Challenges aside, insurance penetration in Kenya as a whole 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.

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