Over the past two years, southern Africa has been hit hard by an El Niño-related drought that has led to some of the driest conditions in more than three decades for farmers across the region. Crop failure and livestock losses have been accompanied by concerns over water scarcity and growing pressure on food security. Though weather patterns have since normalised, bringing increased rainfall, the drought’s after-effects continue to affect the region’s agricultural economy.

Small and micro-level farms are faring the worst. With livelihoods that hinge on the output of a handful of livestock, or a limited plot of crops, the impact of severe weather events can be debilitating. These difficulties have stalled growth prospects for many, and accentuated the need to build resilience among low-income communities across the continent.

Efforts to help poor households endure and recover from these kinds of shocks are crucial to achieving sustainable economic development. This is because resilience not only increases the wellbeing of individuals and family groups but also augments the prosperity of the communities in which they live.

IMPROVING RESILIENCE
“A major loss in Africa doesn’t just affect the individual who experienced it; there is a wider impact in the community. And when risk materialises so frequently, as it does in low-income groups, people can’t think about the future – they are simply hoping to get through the next month,” says Peter Gross, director of MicroEnsure Labs at MicroEnsure, a microinsurance provider.

Offering microcredit is one tool in the arsenal of possible solutions to this problem. And the African continent’s recent record here is strong: while the sluice gates of microcredit are yet to truly open, a steady flow of loans is now being disbursed across a number of markets. But to develop meaningful resilience, more will be required. This is where microinsurance steps in.

As a method of financial protection, insurance cover
can be deployed in various circumstances. Small land-owners that face weather extremes, from drought to excessive rain, can cover their crops or livestock. But it is equally applicable in the urban environment. Poor households facing injury, disability or loss, for instance, can secure insurance to cover periods of lost income. As solutions go, microinsurance for the poor, particularly if offered with credit, is a good one.

The problem is that, traditionally, very few of Africa’s larger insurers have offered coverage for low-income groups. This has led to low levels of insurance penetration across the continent and contributed to a sub-optimal allocation of resources when shocks occur.

“When only 2% to 3% of a population is formally insured, that means communities are forced to dedicate their resources to take care of the unexpected tragedies that befall their members, instead of investing in the future in a systematic way. Insurance provides income smoothing, which allows individuals, communities, cities and countries to be more certain of what things will look like tomorrow,” says Mr Gross.

NEW PLAYERS EMERGE
But now a raft of new microinsurance companies are shaking things up. This gap in the market is now being filled by a mix of start-ups, new market entrants, international organisations and a growing number of partnerships between existing insurers and telecommunications firms. Together, these companies are offering innovative new insurance solutions to low-income groups across Africa, even if development is still at a relatively early stage.

According to data published by the Munich Re Foundation and Microinsurance Network, about 5% of the continent’s population had some kind of microinsurance coverage in 2014. This generated about $756m in gross premiums out of a total of $69bn for the insurance industry as a whole. Life and credit life insurance products dominated much of this microinsurance coverage, though the research notes that more complex products—especially agricultural, health and property insurance—are experiencing faster growth.

“Microinsurance has been gaining ground over the past five to 10 years in Africa, but as an industry we are still in the first phase of development. People are experimenting and trying to work out how to provide products and offerings profitably,” says Kudzai Kutukwa, chief executive of Mobbisurance, a microinsurance start-up based in South Africa.

Despite a rise in the number of insurance providers, the industry is still beset by various growth impediments. For one, balancing profitability with attractive product pricing at the micro level is an equilibrium that is yet to be found. This situation is not helped by limited data availability, meaning that insurers cannot price their risk appropriately. To compound these problems, customer awareness of insurance in the lower tiers of the economic pyramid is low.

ACCESS TO DATA
“Issues around data availability, product pricing and customer awareness are the biggest challenges facing the microinsurance sector in Africa,” says Tom Kocsis, group head of microfinance atLetshego, an inclusive finance provider with a footprint across the continent.

The provision of crop insurance is a case in point. To
nomic pyramid, you can’t protect farmers from everything. So we have focused on crop insurance in instances of excessive rain or drought. We want to use technology to cut down on costs and serve the market better,” he says.

Partnering with South Africa’s national space agency, Mobbisurance receives weekly satellite imagery of the regions in South Africa that it covers. This enables it to zoom into a particular farm and assess the extent to which a climate event, including deficient or excess rainfall, has impacted a crop. Under this model, the need for site visits is eliminated, drastically reducing the cost of offering crop insurance.

ON-THE-GROUND RELATIONSHIPS
Though Mobbisurance is yet to scale up to a commercial basis, it represents a growing number of institutions using satellite or drone-sourced imagery to make agricultural insurance assessments. Yet, convincing potential customers that satellite or drone can effectively monitor the health of their crops may take some doing.

And for some providers that deal with the agricultural economy, this factor means that on-the-ground relationships are paramount. VisionFund International, the microfinance arm of World Vision, is rolling out complex agricultural insurance products that require training and face-to-face relationships to succeed.

“VisionFund is working on high-impact microinsurance products that require training, development and on-the-ground distribution methods. We believe that packaging these offerings with traditional microfinance solutions is a good way of improving market penetration for inclusive insurance,” says Stewart McCulloch, a global insurance director at VisionFund.

By bundling its insurance products, VisionFund is reducing distribution costs and complexity. It is also leveraging its existing relationships to raise awareness of the benefits of insurance adoption.

“We are reimagining the role of microinsurance and the ways in which banking and insurance can work together. The integration of this thinking can be done in an incredibly positive way when it comes to financial inclusion. In the agricultural sector, for instance, what we are trying to do is encourage farmers to treble their investments to make use of the latest tools and techniques,” says Mr McCulloch.

Through this process, VisionFund is able to offer veterinary assistance and artificial insemination under a breed improvement package for farmers. These services, in tandem with the extension of credit, are helping farmers working with the organisation to significantly increase their total output. By having personnel on the ground, it also addresses issues of insurance awareness and education among low-income households. “By offering credit to farmers – bundled with insurance – we are allowing investments to be made while reducing the risk,” says Mr McCulloch.

MOBILE ROUTE
Though the efficacy of this approach is clear, elsewhere mass-market microinsurance options have gained traction by other means. MicroEnsure, a multi-market provider of mobile-based insurance products, has found success through simplicity. The company is at the forefront of efforts to roll out microinsurance continent-wide in a profitable way. To do this, it is making use of mobile products that are packaged in a non-complex structure and that are tailored specifically to the needs of lower income groups.

Operating across nine markets today, MicroEnsure has had to overcome numerous challenges on its development journey. “Insurers 10 years ago thought technology would be powerful primarily because it would provide access to previously unreachable customers. For example, more than 50 digital insurance products were launched in Kenya on the back of the success of [mobile-based money transfer service] M-Pesa,” says Mr Gross.

But according to Mr Gross, most of these initiatives have failed to scale up, not for lack of access but because the providers were not trusted and consumers will not naturally opt for insurance options unless they are compelled to – for example, by a government obligation to have car insurance.

“When we began working with telecoms companies, they forced us to make an insurance policy as simple as an airtime bundle – they wanted the product to be clear, valuable and reliable. A 25-page insurance contract doesn’t meet that bar, nor does a claim officer who gives you the runaround,” says Mr Gross.

MicroEnsure, in response to the demands of providing insurance via mobile, reduced its contracts to the size of a text message. It has introduced a number of product innovations across Africa, becoming the region’s first microinsurance company to offer cover for hospitalisation with no medical underwriting, no medical exclusions and no restrictions on qualifying hospital networks.
“We built our model through a deep knowledge of the low-income consumer. We don’t start off with a new concept in a boardroom, but by visiting markets and villages where our customers live and work,” says Mr Gross.

**WIDER IMPACT**

Indeed, the success of mobile-based microinsurance schemes bodes well for the expansion of the sector as a whole. The growth of MicroEnsure and other mobile players points to the fact that mobile solutions address many of the challenges facing mass-market microinsurance. Both easy and cheap to distribute, mobile insurance products can offer consumers a less costly alternative to other schemes. Meanwhile, customer data can be gleaned from mobile activity based on other financial services, giving insurance providers more insight into a prospective customer.

“Mobile-based microinsurance is a big opportunity to increase market penetration. If the client already has the ability to conduct financial transactions on their phone, then it is much easier for the client to take on an insurance product,” says Dirk Reinhard, vice-chairman of the Munich Re Foundation.

Nevertheless, mobile microinsurance has its own difficulties, which is particularly true when taking into account the diversity of all 55 African markets. While some already have established ecosystems of mobile network operators (MNOs) partnering with various financial services firms, others are less advanced. In countries with a limited pool of MNOs, lack of competition could make mobile penetration of insurance more difficult to achieve.

“Commission costs for MNOs can be a problem because in some markets there are only a few organisations that are operating. This gives MNOs strong market power, particularly as they sit on a lot of client data. The commission can sometimes be as high as 50%, which makes the profitability of any insurance scheme almost impossible,” says Mr Reinhard.

Despite the challenges, the future of Africa’s microinsurance sector looks bright. As new market players work swiftly to increase insurance penetration across the continent, there is a growing move by regional and international governments to add their support to the cause.

**GOVERNMENTAL RESPONSE**

Mechanisms such as the African Risk Capacity (ARC) scheme, a specialised unit of the African Union dedicated to improving member states’ responses to extreme weather events, is one such example. By pooling funds and expertise, the ARC is helping regional governments better understand and respond to weather-related risks. Research included in ARC’s Africa RiskView product, which employs comprehensive weather modelling, could also be a tool for microinsurers to employ.

Meanwhile, at the international level, the G7 leading advanced economies have also pledged their support for greater insurance coverage for low-income groups around the world. This is likely to deliver strong benefits for Africa’s microinsurance market.

“The G7’s 2015 decision to insure 400 million people against climate-related risks is a big step in the right direction,” says Mr Reinhard. “Globally, about 100 million people are covered in this respect, leaving an additional 300 million in need of some insurance. Reaching this objective will require a multilateral approach through mechanisms such as the ARC scheme.”

Cumulatively, these efforts are adding to the already impressive momentum behind microinsurance development across Africa. Though more work is needed before the sector achieves meaningful scale, both private and public sector players are at least pulling in the same direction. Looking ahead, Africa’s microinsurance growth story looks set to continue with the same mix of innovation and ambition that has sustained it so far.