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Africa's booming population, low insurance penetration and increasing demand presents a huge opportunity for the growth of microinsurance

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The population in Africa is growing rapidly. A recent article by *The New York Times* described it as a “population bomb”. Sub-Saharan Africa, which today accounts for about 12% of the world's population, may account for one third in 2100 if the population growth rate remains at the same rate.

The continent highly depends on agricultural production. Access to insurance for the low-income sector – so-called microinsurance – is still very low in Africa. According to figures by the ILO and the Munich Re Foundation from the recently published *Microinsurance Compendium Vol II*, 18 to 24 million poor people (or around 2-2.5% of the population) in Africa have some sort of insurance. However, South Africa being the frontrunner in that continent accounts for approximately half of the total number.

Overall, Africa only accounts for about 5% of the worldwide microinsurance market. However, most of the insurance products available are credit life. Solutions to manage agricultural risks more efficiently are hardly on the market.

Insurance can play an incredibly important role in the fight against poverty. Research carried out by the University of Oxford's Department of Development Economics has shown that insurance could reduce poverty in Ethiopia by one third if only the four main risks were covered: health, mortality, agricultural risks and price shocks affecting the value of products.

Examples from Tanzania show stunting and lower education by 2004 when a family was affected by a death in the 1990s. Children from families affected by the famine of 1984–85 in Ethiopia show similar effects.

The good news is that the number of microinsurance

clients is growing rapidly. Between 2009 and 2011, the number of poor people with access to insurance grew at least by one third. The demand is high but availability as well as take-up is incredibly low – a big opportunity for insurance providers in the region.

Some countries do have a long tradition of informal risk-transfer mechanism insurance providers can built upon. Experts estimate that, for example, in Ethiopia, about 95% of the population is covered by some sort of a traditional funeral insurance scheme.

Financial education, availability of data as well as lack of insurance and management experts remain the key barriers in the development of microinsurance. In sub-Saharan Africa, high transaction costs due to a lack of infrastructure, as well as an underdeveloped microfinance industry to be used as a platform to make microinsurance more accessible, make it even more difficult. Furthermore, political stability is a prerequisite for any stable economic development.

But there are promising developments in the region. Several governments have realised the opportunities of microinsurance. Ghana is in the process of creating a microinsurance regulatory framework as part of its broad overhaul of insurance regulation. Other countries like South Africa, Kenya, Uganda or Ethiopia have already implemented such a regulation or working on it. Authorities and insurers in Tanzania or Nigeria show high interest in developing the low income market.

Furthermore, as mobile communication becomes more and more affordable, it will play an important role to bring costs down. We will see a continuation of the growth of microinsurance all over the world and some countries in Africa may soon catch up. ■