

Private Sector & Development

PROPARCO'S MAGAZINE



THE AFRICAN INSURANCE SECTOR: BUILDING FOR THE FUTURE

Economic growth
Climate-related risks
Micro-insurance
Harnessing savings
Health insurance
Mobile phone networks

PRIVATE SECTOR & DEVELOPMENT

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SUMMARY

04 THE CONTRIBUTORS

06 OVERVIEW

The insurance sector sets its sights on Africa

By Richard Lowe

09 INSURANCE AND DEVELOPPEMENT

Harnessing insurance to African economic development

By Garance Wattez-Richard
and Amélie de Montchalin

13 INSURANCE AND DEVELOPPEMENT

Using insurance to boost corporate and capital investment

By Frédéric Baccelli

15 SPOTLIGHT

Life insurance in French-speaking Sub-Saharan Africa

By Pathé Dione

18 AGRICULTURAL INSURANCE

Yield and climate-linked insurance - a boon for small farmers

By Jean-Luc Perron
and Pierre Casal Ribeiro

22 KEY DATA

26 CASE STUDY

Experiences in index-based insurance for farmers (Senegal and Bangladesh)

By Chloe Dugger
and Rachel Sberro

30 HEALTH INSURANCE

Expanding health insurance coverage with private players

By Eneida del Hierro
and Aurore Lambert

35 CASE STUDY

Morocco: medical assistance for micro-business owners

By Youssef Bencheqroun

36 HEALTH INSURANCE

Micro-health insurance: the user perspective

By Lara Gautier, Isabelle Guerin,
Albino Kalolo, Annabelle Sulmont

39 INSURANCE AND MOBILE PHONES

Insurance via your mobile phone: development of distribution channels

By Frédéric Bouchet

42 LESSONS LEARNED FROM THIS ISSUE

By Pauline Angoso
and Dalia Stanikaite Torija Zane

Sub-Saharan Africa: the new insurance frontier?



Guillaume Barberousse

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Big players in the insurance sector have been increasingly focused on Africa over the past few years and brokers, insurers and reinsurers have all moved into the region with mixed results: Africa only represents 1.5% of the global insurance market, despite being home to 13% of the world's population.

There are a number of reasons for this. First, low mean individual incomes: before paying over insurance premiums, people first have to eat and put a roof over their heads. These priorities tend to make such outlays look like “extravagant” expenditure. Many people simply view mandatory insurance as additional taxes and this colours their perception of insurers in general. This is in addition to the low proportion of Sub-Saharan African households with bank accounts and the strength and popularity of traditional solidarity networks. Despite these obstacles, insurance still has huge development potential in Africa both in the individual and business sector as borne out by the Continent's economic and demographic momentum. However, private market players need to adapt their offering and distribution channels to African's needs and contribution capabilities.

This latest edition of *Private Sector & Development* looks at the opportunities and obstacles facing insurance in Africa and presents analyses prepared by a number of sector stakeholders (insurers, researchers, donors, etc.).

Richard Lowe, founder of the PanAfrican insurer Activa, provides us with a sector overview for the Continent as a whole (pp. 6-8). His fellow insurer, Pathé Dione, founder of SUNU Group, presents a more specific analysis of French-speaking African insurance markets.

Garance Wattez-Richard and Amélie de Montchalin of AXA Group tell us how the insurance sector can drive African economic development (pp. 9-12): insurance helps stimulate growth, enhance the resilience of local economies in coping with extreme events, and foster solidarity between individuals. As Frédéric Baccelli, CEO of Allianz Africa explains (pp. 13-14), the sector can also be instrumental in channelling household savings and long-term investment in businesses and infrastructure projects into local development although its ability to do this remains limited at present.

Growth of the African insurance sector will be facilitated by microinsurance, which targets funding for the informal economy, in spite of a number of significant challenges, as Eneida del Hierro and Aurore Lambert of AFD explain (pp. 30-34). There are also accounts of related experiments conducted in Morocco, India, Tanzania and Mexico (pp. 35-38). Meanwhile, index-based insurance arrangements look like a promising way forward and will help indemnify the Continent's smallholder farmers in the event of poor harvests or negative weather events (pp. 18-21 and 26-29).

If they really want to break into Africa, insurers will have to come up with cheaper distribution channels and, as Frédéric Bouchet of insurance brokers and reinsurer Gras Savoye explains (pp. 39-43), mobile phones could represent a promising solution in this regard. ■

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The insurance sector sets its sights on Africa

By Richard Lowe, Founder and CEO, Activa Assurances

Africa is home to 15% of the World's population but generates barely 1.5% of global insurance premiums. Nevertheless, a number of indicators point to rapid future growth in the sector: the Continent's economic momentum, the emergence of the African middle classes, and the development of new distribution channels, etc. This growth will be contingent on good governance of insurance businesses and the professionalism of their staff as well as service offerings that fit with local needs.

FOCUS ACTIVA

Activa Group was founded in 1998 and is a big player in the African insurance sector. Its seven subsidiaries are all market leaders in the Continent's five market segments. The Group continues to grow via the Globus network which it established in 1997 as a non-integrated insurer network offering international customers and brokers comprehensive insurance solutions in over 40 English-, French-, Arabic-, and Portuguese-speaking African countries. Globus is the partner of choice for major international insurers that do not have their own African subsidiaries (i.e., Generali, Zurich, Ace, XL, etc.). Globus also has its own captive reinsurer, Globus Re.

In the early 2000s, African economies were growing by between 4% and 7% a year and the Continent was being talked of as *"the World's second most important growth region after Asia and on a par with the Middle-East"* (McKinsey). Naturally this was a boon for the insurance sector. However, the average African spends a mere USD 70 a year on insurance, compared to USD 1,000 in South Africa and USD 2,700 in Western Europe. Moreover, there are very high regional disparities across the Continent: with the exception of South Africa which has a market penetration rate of 14%, the ratio of insurance premiums to GDP is barely 1%. This lack of enthusiasm for insurance is down to several different factors: First, the very modest purchasing power of the populace¹: before taking out insurance, people first have to eat and put a roof over their heads, look after their children's needs, etc. This is in addition to the absence of an "insurance culture", the fact that there is no mandatory insurance for mass risks, the absence of innovation and pricing regulations, and a sometimes haphazard approach to processing claims that promotes a negative perception of insurers. Consequently,

only mandatory types of insurance (i.e., auto insurance, school insurance, or repatriation or medical insurance linked to visa applications, etc.) have been taken up by the more affluent sections of the population.

At the present time, Africa accounts for barely 1.5% of the global insurance market which generated USD 4,778 billion in 2014 (source: SIGMA- Swiss Re). The Continent has around 600 active insurance businesses in 54 countries (by way of comparison, Europe has nearly 5,000).

The region's top ten markets generate more than 90% of premium income, particularly South Africa (75%²), followed by Morocco, Egypt, Nigeria and Kenya. In Africa's other countries, insurance still has a long way to go.

Despite Africa's relatively small share of the global insurance market, a number of international brokers and major European insurers have moved into the region, attracted by healthy loss ratios due to African insurers' relatively low exposure to major risks. Indeed, the combined ratio for the Continent as a whole is better than for developed markets (figure ➔).

1 According to the World Bank's most recent report, 388 million people – or 43% of the population of Sub-Saharan Africa – were living in extreme poverty in 2012.

2 This higher rate for South Africa is partially attributable to social insurance products developed by the private sector, a three-fold increase in the ranks of the middle classes over the past 10 years, popular trust in banks offering long-term savings products, and a high demand for protection due to widespread criminality and a large number of car accidents.

“TRADITIONAL” MARKET PLAYERS AND NEW DISTRIBUTION CHANNELS

The African insurance market is mainly organised around brokers, insurance companies and reinsurers. Brokers in domestic markets focus mainly on individual risks, local SMEs and public and para-public sector business. 90% of corporate insurance business is handled by international brokers who have been advising their clients on investing in Africa for many years and they have set up insurance programmes with insurers present on the Continent. Some of these companies only do business on their own domestic markets while others with a more regional or international footprint are increasingly operating as part of networks and setting up subsidiaries or partnerships in a number of African countries. In the past few years, there has been a big increase in network-based insurers and this trend will probably accelerate in view of capital adequacy constraints imposed by the Regulator. Consequently, the number of domestic insurers will probably decline and those that survive will do so by marketing highly innovative products to niche markets.

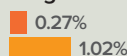
Lastly, the heavyweight global reinsurers are very active in Africa alongside regional or national reinsurers as they are needed by the insurance companies to provide additional cover, particularly for major risks.

Although brokerage is still the most widely-used insurance distribution channel, notably for corporate business, other channels are also beginning to emerge, starting with bancassurance, i.e., the sale of insurance products through banking networks. For Africa as a whole, the market penetration rate is around 2%, however it rises to between 10% and 20% among bank customers. More and more individual risk products are being marketed via banking networks, both by the retail banks themselves and by microfinance organisations.

Phone networks are also an effective distribution channel on a Continent with a mobile phone penetration rate of 70% and it is precisely by using phone-based apps that micro-insurance could fulfil its huge potential (see the article by Frédéric Bouchet). Insurers are also leveraging social media as a distribution channel. →

➔ Insurance market penetration rate (premiums as % of GDP) ■ Life ■ Non-life

Maghreb



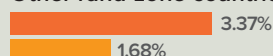
North-Eastern Africa



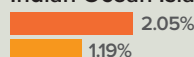
South Africa



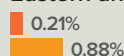
Other rand-zone countries



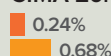
Indian Ocean Islands



Eastern and Southern Africa



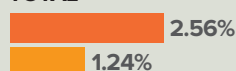
CIMA Zone



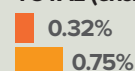
Western English-speaking Africa



TOTAL



TOTAL (excl. South Africa)



By way of comparison, the global insurance market penetration rate is **6.5%**

⊕
**Average ten-year loss
ratio by African insurance
market segment**

31.71%

Casualty

45.66%

Auto insurance

27.61%

General liability

34.75%

Work accident
+ employers' liability

32.34%

Underwriting risk

45.90%

Individual accident

27.50%

Credit insurance
and bonding

28.54%

Transport, maritime,
aviation

Source: African Reinsurance Corporation.

BETWEEN OPPORTUNITIES AND OBSTACLES

A number of indicators point to rapid growth in the African insurance sector, particularly in the individual risk segment. Aside from the Continent's economic promise and demographic momentum³, the emergence of the African middle classes and the development of new distribution channels are a boon for the sector.

Regulations and regulators⁴ are increasingly apparent and directive in nature. They focus on oversight and the involvement of sector players in economic activity. In the last few years, industry regulators have required insurers to bolster their capital base with a view to increasing premium retention rates in domestic markets and on the Continent generally. Strict rules have also been drawn up forbidding the insurance of risks abroad and requiring prompt settlement of premiums. The Regulator is no longer merely concerned with the insurer's solvency but also drafts guidelines on good governance (suitability of senior managers, internal control procedures, information systems, etc.).

However, if the African insurance sector is to make the most of these favourable conditions, a number of challenges need to be met. At government level, political stability is absolutely essential along with good governance – especially anti-corruption measures and judicial security. At insurer level, companies need to boost their professionalism, solvency and financial strength. Given that an insurer's key resource is the quality of its employees, a big investment is needed in academic and on-the-job training. Insurers also need to be much better explainers and communicators if they wish to improve their image with the population as a whole⁵.

It is those companies that are able to innovate (in terms of both new products and distribution channels) that will gain an edge on the competition. ■

3 ▶ Africa is currently home to 15% of the World's population, but this figure will rise to 25% in 2050 and 33% by 2100 (source: INED).

4 ▶ Public bodies with national or regional jurisdiction tasked with controlling and regulating insurance in one or several countries.

5 ▶ In Africa, the insurer is often seen as someone who collects premiums but is reluctant to pay claims.



Harnessing insurance to African economic development

By Garance Wattez-Richard, Head of Emerging Customers, AXA Group
Amélie de Montchalin, Vice-President for Public Policy & Regulation, AXA Group

The intangible nature of insurance sometimes masks its role in development. Yet, it directly contributes to African economic development by driving growth, acting as a stabilizer for local economies and households facing random shocks, and as a vector for distribution and solidarity between people. To realize its full potential in Africa, insurers need to rethink their products and their distribution channels in line with the specific features of local markets.

Insurance is a peculiar concept. Because it consists in paying a defined sum today to cover a risk that may or may not materialize tomorrow, its benefits remain largely hidden and intangible. However, insurance has always existed in some form and today's version is a product of tools developed by many traditional societies to create "confidence" among people, private organizations and public authorities. Indeed, in many languages the words insurance and confidence have the same roots or overlapping meanings.

Traditional "self-insurance" tools designed to collectively transfer and manage risks often take the form of community savings supervised by a "wise" person, or more complex hierarchical and social arrangements. Pooling risks and resources to help people through tough times is very common in Africa. Apart from tontines, other non-

profit, membership-based schemes such as burial societies in South Africa or *iddirs* for Ethiopian smallholder farmers pool risks among people with no access to formal insurance services.

Nevertheless, moving from informal community-based "insurance" systems to formal individual ones clearly has a positive impact on growth and development. For a long time, because of its perceived invisibility, the macroeconomic role of insurance was not a major topic of interest. However, in 1964, the UN Conference on Trade and Development declared that "*a sound national insurance and reinsurance market is an essential characteristic of economic growth.*" Our view is that formal and individual insurance schemes contribute three things to economic development: economic growth; stabilization; and distribution (figure ➔).

Insurance and economic development



Contributes to growth

Enables risk-taking.

Positively impacts interest rates, the credit supply and financing terms and conditions.



Stabilization

Economic cycle:

smooths income patterns and facilitates disaster recovery.

Financial cycle: long-term focus.



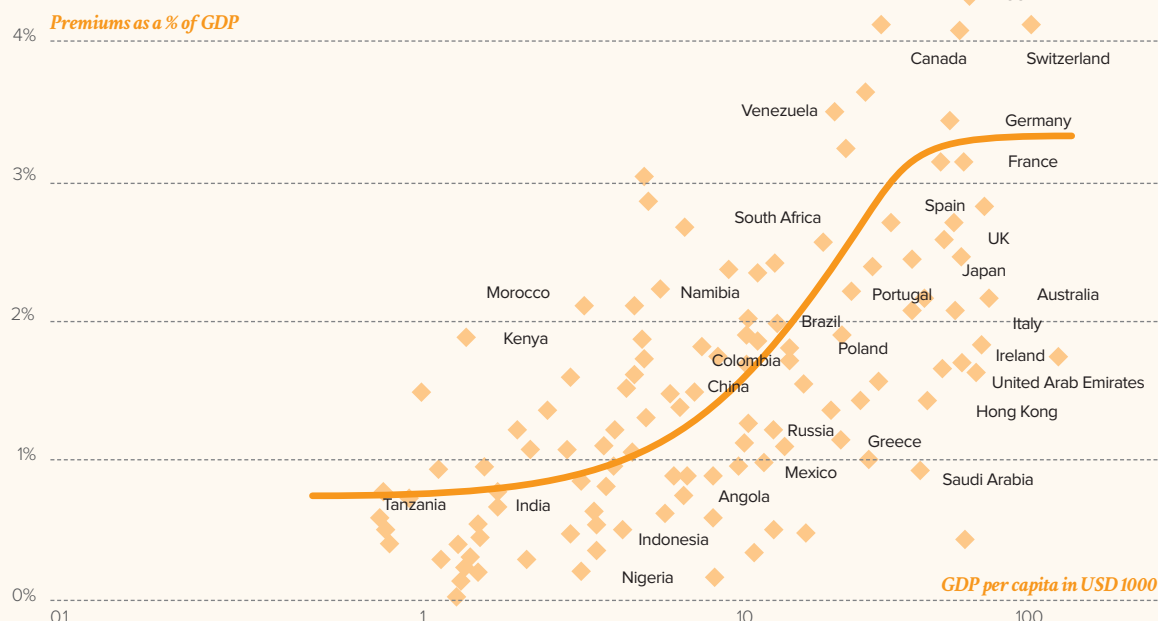
Distribution

Pooling and mutualization: spreads risks between generations and between individuals.



➔ The S-curve in non-life insurance, 2014

The S-curve was developed by Swiss Re Economic Research & Consulting. It is updated annually with regression analysis using data from more than 140 countries. It illustrates the global average relationship between economic development (GDP per capita) and insurance market development (share of premiums in GDP).



The S-curve reveals that insurance spending rises fast in countries where GDP per capita is in the region of USD 5,000 to USD 35,000. However, in countries with lower and higher income levels, insurance premium growth is about the same as or slightly higher than GDP growth. And in low-income countries, the level of wealth and also the level of awareness of insurance, are too low to cause insurance demand to grow at a faster rate than income.

Source: Swiss Re Economic Research & Consulting

INSURANCE AS A GROWTH DRIVER

FOCUS AXA GROUP

AXA has 166,000 employees in 64 countries serving some 103 million customers across its four lines of business: property and casualty insurance, life and savings, health insurance and asset management. AXA needs to constantly anticipate major transformations in order to tailor products and services to present and future customer needs. For example, in February 2016 it launched a global initiative to scale up programs to protect the emerging middle classes in developing countries.

First, insurance drives growth. There is ample evidence of a general correlation between formal insurance penetration and GDP growth. Analysing 77 advanced and emerging economies between 1994 and 2005, Han *et al.* (2010) found that a 1% increase in total insurance penetration led to an annual 4.8% increase in economic growth (versus a 1.7% increase when only life insurance is considered). Interestingly, cross-country data (USAID 2006) show that over the last 40 years, formal insurance penetration is not linearly correlated with GDP growth but follows an “S”-curve (Enz 2000, [figure ➔](#)). Low levels of economic development are typically associated with low insurance penetration, while informal and traditional self-insurance mechanisms are not easily quantifiable. Then,

at levels of around USD 3,000-5,000 per capita, insurance penetration rises faster than GDP until the market matures and a “plateau” is reached.

Two main drivers explain this relationship. First, insurance makes it possible for individuals to take risk-related decisions that are greater than those each individual could bear on their own, e.g. creating a company, building a large infrastructure or a factory, developing a new technology, etc. In emerging economies there are low-frequency, high-cost risks that individuals cannot bear, i.e., sole bread-winners who are unable to work because of illness, severe floods or drought for farmers. Once such risks start to be covered, the associated peace of mind allows households to take “productivity-enhancing” decisions and invest for the longer term, e.g.,



begin to use fertilizers, send a child to school, buy preventive equipment against malaria, etc.

The second driver works mostly on a macroeconomic level through lower interest rates. The impact of insurance on the yield curve results in “lower interest rates and a longer maturity curve”. By insuring firms and households against property loss, damage, and loan repayment difficulties, insurance effectively helps lower credit risk and interest rates. In addition, insurance companies generally invest the premiums they collect and match their insurance liabilities with assets of the same duration: health insurance

“New players such seek to reinvent protection for low-income emerging customers by tackling three key challenges: price, lack of trust due to complexity of insurance products, and difficulty of access.”

premiums are generally invested in shorter-term assets but premiums collected for life insurance or retirement products can be invested over decades.

INSURANCE AS A VECTOR OF DISTRIBUTION AND SOLIDARITY

Second, insurance is a source of stability for the economy and households, smoothing the cumulative consumption patterns of individuals that have to deal with random shocks. This stabilization role is apparent when natural catastrophes hit lower income countries with a lack of funding and disaster preparedness. As these countries may have insufficient resources or borrowing capacity to recover from natural disasters, transferring risks to insurance companies and subsequently to financial markets can be particularly effective in avoiding major disruptions to economic growth. On a more individual basis, stabilization is also facilitated by making income more predictable.

Finally, insurance is a powerful vector for distribution and solidarity between people and generations. It creates an invisible solidarity net between economic agents around shared preferences and priorities. Insurance lends economic tangibility to the concept of solidarity and structures it finan-

cially through two fundamental principles: pooling or aggregating risks, and mutualising risks, i.e., pricing them based on their statistical occurrence for the insured pool and not for the individual.

As such, insurance ties “the misfortunes of the few to the fortunes of the many” which operates a form of distribution. This distribution of income occurs ex post and is linked to an accident, something fundamentally different and complementary to public redistribution, based on a comparison of ex ante and desired ex post income levels. Risks are not equally shared among given individuals in society over time (Ewald, 1999) and this inequality has little to do with initial income levels (while admittedly risk management tools depend on income). Insurance restores a form of equality between policyholders. Once they have paid a premium, what matters is the risk they face and not their income, education or social status.

RETHINKING INSURANCE FOR EMERGING CUSTOMERS IN AFRICA

Insurance penetration remains very low across Africa. Excluding South Africa, total premiums are around 1% of GDP, far from the 5% and 9% levels observed in Asia and France, respectively. Insurers have been slow to tailor their products and services to African realities.

They have built their African operations along the same lines as those in developed countries, i.e., long and complex contracts, distributed through costly networks of agents and brokers that only reach the urban elite. →

“Moving from informal community-based “insurance” systems to formal individual ones clearly has a positive impact on growth and development.”
(United Nations, 1964)

The remaining 90% have little access to or awareness of insurance. Although they are the most vulnerable with poor access to education or healthcare, they can ill afford insurance. Consequently, insurance companies have long believed that these populations were simply uninsurable.

However, these populations have developed their own risk management mechanisms: couples have many children both to ensure they will be taken care of in their old age and to diversify family income. They hold precautionary savings, either in cash under the mattress or in the form of equipment that can be sold in time of need. But these mechanisms often fail: in India alone, 40 million people fall back into poverty every year because of health-related events.

Given the traditional insurance market’s failure to address these needs, new digitally-enabled players such as MicroEnsure seek to reinvent protection for low-income emerging customers (box ☞). Because they face three challenges, i.e., price, lack of trust due to complexity, and dif-

ficulty of access, they have had to reinvent the insurance business model.

So what now? The future of insurance for the emerging customers of Africa and beyond probably lies in leveraging new distribution channels, especially digital-driven ones such as Kenya’s M-PESA mobile payment service, which are rapidly developing across Africa. In 2016, more smartphones than feature phones are forecast to be sold in Africa, as was the case for India in December 2015. And with 3G internet access boosted by public and private investment, mobile-provided insurance will continue to thrive, especially in countries such as South Africa, Kenya and Rwanda.

Digital leapfrogging will also allow insurers to bundle insurance products with other value-added services such as financial education or health solutions. For example, AXA Egypt offers customers access to telephone consultations with doctors. Mobile health service start-ups are flourishing throughout Africa. Take Rwanda’s Foyo, a mobile app which provides users with health advice and information for the price of an SMS, or Mama-kiba in Kenya, which helps low-income pregnant women to save for maternal health needs.

Huge opportunities exist to leverage valuable customer contacts, making the invisible hand of insurance more tangible and ultimately enhancing formal and efficient safety nets for millions. ■



Moving insurance into the mobile era

To overcome the distribution conundrum, MicroEnsure, in which AXA is the largest investor, helps micro-finance institutions, mobile network operators and a variety of other local distribution partners, to provide simple protection and health insurance products to their large customer bases. Frequently, insurance is initially offered for free by the distribution partner as a “pull” or loyalty product, and customers can subsequently purchase increased coverage for themselves or their family as an add-on. This “freemium” (free with a premium version) model has proven its worth, notably in the mobile phone arena where clients have multiple SIM cards and operators battle to contain customer turnover.

Players like MicroEnsure and BIMA now cover more than 20 million lives through mobile offers, with monthly premiums ranging from less than 50 cents to 5 dollars. For emerging customers, this form of protection is much more affordable than traditional insurance.



Using insurance to harness savings and boost corporate and capital investment: the example of the CIMA zone

By Frédéric Baccelli, CEO, Allianz Africa Group

In Africa, insurers are potentially able to channel household savings and make long-term investments in businesses and infrastructure projects, however a number of obstacles continue to hamper their contribution to local development.

With €1.4 billion worth of premiums written in 2014, Western Africa (excluding Nigeria and Ghana) and Central Africa provide a unique example of regional sector-based integration. Since 1992, thanks to CIMA¹, insurance markets in 14 countries in the zone (i.e., members of ECOWAS² and ECCAS³) have been governed by a single insurance code supervised by a common supervisory body, the CRCA⁴ (see pages 15-17).

While CIMA has managed to rehabilitate the sector and facilitate growth, local insurer's ability to help fund development and investment in regional markets

remains limited. Total assets managed by CIMA member insurance companies in 2013 was still less than €2.4 billion and 55% of this amount related to life insurance. Although this figure is double what it was 10 years ago, it remains far short of what the continent needs: for infrastructure alone it is estimated that nearly USD 100 billion a year are needed over the next 10 years (source: BAD).

A number of factors continue to hamper the contributive capacity of local insurers: the market penetration rate is still very low; market fragmentation and the relatively small amounts of assets owned by insurers preclude large investment projects; the dearth of investment opportunities; and a regulatory system that still leaves room for improvement.

FOCUS ALLIANZ

Allianz has a footprint in 15 African countries, from Morocco, down through Kenya to South Africa. In Sub-Saharan Africa at end-2015, Allianz Africa group had 17 subsidiaries in 12 countries, around 600 employees and €530 million worth of assets under management. Allianz markets a comprehensive range of insurance services for both private individuals and businesses and is involved in major international programmes including micro-insurance. It has approximately 700,000 micro-insurance policy holders in West and Central Africa (policies mainly tied to micro credits).

A STILL LIMITED RANGE OF INVESTMENT VEHICLES

According to CIMA, a majority of the assets managed by regional insurers are invested in term deposit accounts (i.e., 36%), with 20% and 21%, respectively, invested in real estate and sovereign bonds issued by member states. The total proportion invested in securities is a mere 40%, due in part to the relatively underdeveloped, poorly integrated and illiquid state of this market as well as to the lack of long-term investment solutions.

For example, only 39 companies (36 of which are Ivorian) are traded on the ECOWAS regional securities exchange (BRVM), representing barely €10 billion worth of capitalisation for eight countries – compared to €54 billion for Nigeria alone (see the insert). The bond market continues to be dominated by sovereign debt. This means that for insurers, corporate investment opportunities remain very limited indeed. ➔

1 • The Inter-African conference of insurance markets known by its French acronym CIMA (Conférence interafricaine des marchés d' assurances).

2 • Economic Community of West African States.

3 • Economic Community of Central African States.

4 • Regional Commission for Insurance Supervision known by its French acronym CRCA (Commission Régionale de Contrôle des Assurances).



REGULATIONS THAT SOMETIMES PROVE COUNTER-PRODUCTIVE

A number of EU-inspired regulations have been introduced requiring insurers to comply with standards in the areas of management, organisation and capital adequacy. But some of these are ill-adapted to the degree of maturity of regional financial markets and actually represent an obstacle to investment or prevent companies from taking full advantage of market opportunities. This has been the case with rules on limits and dispersion introduced in

2007 for assets acceptable as cover for insurance obligations. For example, they impose minimum and maximum investment thresholds by class of asset. Another measure adopted in 1999 requires that insurers invest at least 50% of assets in the territory of the member state in which the risks are insured and the balance in other CIMA member states, thus curtailing opportunities for participating in Pan-African investment projects.

DEVELOPING INSURANCE AND SAVINGS MARKETS

Massive expansion of insurance in the region will mainly be contingent on three factors, i.e., the available offering, demand and the regulatory framework. The offering needs to be suitably adapted, simple and marketed on a very large scale via non-traditional networks in order to contend with deficient infrastructure. It must innovate along the entire value chain in order to reconcile social efficiency and profitability.

Demand is contingent on economic (as well as cultural factors). Insurance – which has long been

associated with mandatory auto insurance – has frequently been perceived as a type of tax without any real value added, marketed by industry players in a haphazard way. Moreover, risks and savings mechanisms have often been handled via inter-generational or inter-community family solidarity. Insurers, professional associations and institutions can all play a role in financial education, explaining insurance to a wider public and boosting popular trust in the sector as a whole.

LEGISLATION AND TAXATION: THE ROLE OF AFRICAN REGULATORS

The final factor relates to the institutional and regulatory framework. Governments have a key role to play in developing the insurance sector by guaranteeing legal and fiscal security for market stakeholders and promoting tax treatment that is suitably adapted to financial products. They must also act as catalysts in the development of savings.

The World Bank estimates that between 20% and 40% of African savings are currently located outside the continent. Part of this phenomenon concerns expatriate workers as well as affluent Africans wishing to guard against currency fluctuations or to have access to more diversified investment vehicles. Therefore, part of the amounts saved by Africans is invested in foreign markets. Encouraging long-term savings schemes reinjects these amounts back into the real economy and boots growth.

In order to unlock its full growth potential, the insurance regulatory framework needs to be adapted to the degree of market maturity and be more innovation-centric.

There has been undoubted progress since CIMA was set up. Reform of legislation relating to the collection of premiums⁵ (2013) was highly symbolic and helped tidy up the balance sheets of a number of insurance companies in a region where unpaid premiums previously represented up to 50% of annual premium income.

Alongside these crucial steps in boosting public confidence, regulations have also been adopted to encourage new market entrants and a certain degree of concentration. This should confer stability and more solid fundamentals on an insurance market that is essential to the development of other African economic sectors and financing development projects throughout the Continent. ■

5 • This new regulation prohibits insurers from writing or renewing policies for which the premium has not been paid.



Life insurance in French-speaking Sub-Saharan Africa

By Pathé Dione, President and founder of the SUNU Group

Everybody has to contend with life's hazards - and that includes life expectancy - with all their attendant financial implications. For example, the death of the head of a family can deprive close relatives (i.e., wife, children or parents) of an income. Elderly people are also likely to run into financial difficulties if they do not have sufficient savings or close relatives willing to help them out. Individuals need to be able to protect themselves against such risks. Private insurers market life insurance products that are underpinned by several different risk management approaches (encouraging prudence and pooling, sharing and transferring risk).

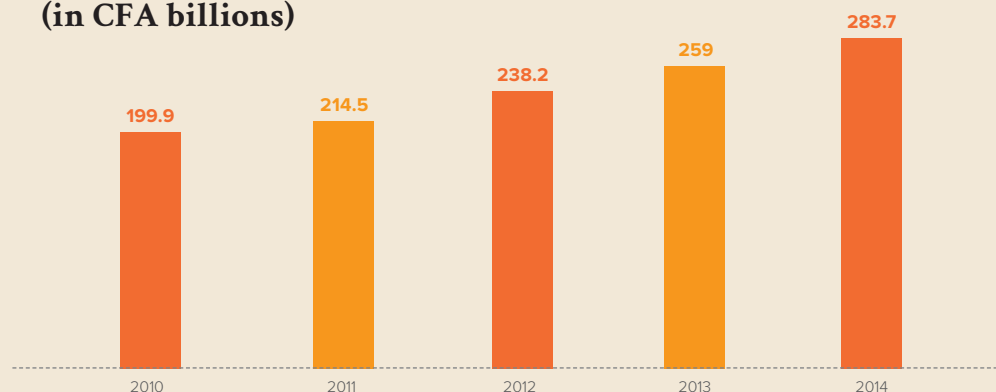
In French-speaking Sub-Saharan African countries that are part of the inter-African conference of insurance markets (known by its French acronym CIMA - *Conférence interafricaine des marchés d'assurances*) and the African insurance

“CIMA's charter has made it possible to gradually transform national insurance markets into a major pan-African market with a common set of rules and regulator.”

federation FANAF (*Fédérations des sociétés d'assurance de droit national africaines*), traditional life insurance products are evolving slowly despite a gradual improvement. Life insurance generates less than one-third of premium income in the FANAF zone and the market penetration rate (i.e., total premiums as a percentage of GDP) is only 0.2% (figure →). The biggest market is Côte d'Ivoire, totalling CFA 110 billion or 39% of the FANAF market, followed by Cameroon (16%) and Senegal (9%). This is partly attributable to the dynamism of the Ivorian economy and its regional importance (figure → p. 16). →

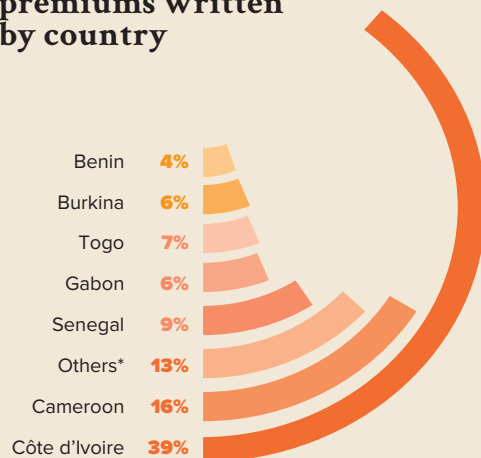
This article summarises part of the work of professors Aymeric Kamega and Frédéric Planchet: "Presentation of the life insurance sector in French-speaking Sub-Saharan Africa" at Université de Bretagne occidentale / EURIA, Université de Lyon I / ISFA and Winter & Associés, 2012. It also draws upon various papers presented at the 40th anniversary celebrations of the African insurance federation (FANAF) held in Abidjan (Côte d'Ivoire) in 2016.

→ Growth in direct life insurance premiums written between 2010 and 2014 – 16 countries (in CFA billions)



Source: FANAF, February 2016

➔ Breakdown in life insurance premiums written by country



* Burundi, Central African Republic, Congo Brazzaville, Guinea, Madagascar, Mali, Niger, Rwanda

Source: FANAF, February 2016

A history of insurance in French-speaking Africa

Private insurance in its current form in French-speaking Africa dates from the nineteenth century and was mainly organised by insurers from the former colonial power. In the wake of independence (in the 1960s), each country passed its own insurance legislation based mostly on the French law of 13 July 1930 and the French government regulation of 1938.²

In July 1962, the International conference on control of the insurance sector (CICA) in Paris endorsed the wish of French-speaking African countries to harmonise their legislation and national regulations and coordinate corporate oversight and training of African insurance executives.

Ten years later, the United Nations Conference on Trade and Development (UNCTAD) began encouraging developing countries to set up insurance companies that were wholly or partially owned by national capital and headed up by people from the countries themselves.

Finally a common insurance code for 14 French-speaking African countries (CIMA) came into force in 1995.

CIMA – A UNIQUE VECTOR FOR INTEGRATION

Since 1995, the French-speaking African insurance market has been organised by the inter-African conference of insurance markets (CIMA), a supranational body with extensive supervisory powers and the culmination of a drive to standardise the sector dating back to 1962 (read inset). CIMA's charter, which has been ratified by 13 French-speaking African countries¹ and Guinea Bissau, has made it possible to gradually transform national insurance markets into a major pan-African market with a common set of rules and regulator. It is underpinned by an insurance code that defines relations between insurers and policyholders as well as policy management rules. This structure is the only one of its kind in the World. Signatory governments have relinquished part of their sovereignty to the Regional Commission for Insurance Supervision, known by its French acronym CRCA (*Commission Régionale de Contrôle des Assurances*). CRCA is the only body that can hand out (or withdraw) authorisations to practice in member states.

The CIMA zone has achieved a number of positive developments since its creation. It rounded out a number of existing institutions such as the International insurance institute (*Institut international des assurances* (IIA) – which provides management training), the African insurance federation (*Fédérations des sociétés d'assurance de droit national africaines* (FANAF)) and the Common Reinsurance Company of CICA Member States (*Compagnie commune de réassurance des États membres de la CICA* (CICA-Re)). A number of accreditations have been withdrawn from poorly-run companies and warnings and reprimands issued to non-compliant executives. Risk coverage has been improved and adapted to local conditions while mortality tables based on statistics for the overall population were replaced in 2013 by an actuarial table based on statistics for the insured population only.

Despite this progress, difficulties persist in CIMA zone markets, especially in the life insurance segment (death insurance and retirement savings). Such problems are linked to local circumstances (limits to supervision capabilities in member states, insurance fraud, socio-economic profile of populations, etc.) and to insurers' operational limitations (imperfect data, lack of qualified personnel, limited investment management opportunities, etc.) and tend to perpetuate mistrust and an ill-adapted offering that ultimately results in a major chunk of the population continuing to be uninsured.

¹ Benin, Burkina Faso, Cameroon, Congo, Côte d'Ivoire, Gabon, Equatorial Guinea, Mali, Niger, Senegal, Central African Republic, Chad and Togo. The Comoros have signed but not yet ratified the Charter.

² The French law of 13 July 1930 defined relations between insurer and insured while the government regulation of 1938 set out the rules for managing an insurance company.



A BRIGHT HORIZON NONETHELESS

In spite of less than spectacular growth in the African insurance market – and especially life insurance in French-speaking Africa – the profound structural changes sweeping the Continent, underpinned by solid socio-economic fundamentals, give room for reasonable optimism over the future of the African insurance sector. These include the emergence of a middle class with significantly enhanced purchasing power and gradual political stabilisation accompanied by peaceful political transition, coupled with stricter regulations across all African insurance markets and the emergence of regional insurance groups (e.g., SUNU, NSIA, SAHAM, etc.). We should also mention Africa's fuller integration into the global economy and the growing penetration rate of mobile phones which represent a highly promising distribution channel for insurers.

These socio-economic trends need to be organised with a view to structural changes. Africa's demographic boom coupled with the emergence of a middle class with extra purchasing power will boost contribution capabilities as well as demand for life insurance products. The increasing difficulties being experienced by pay-as-you-go pension schemes should also fuel this demand.

On the supply side, insurers also need to develop their offerings. On-line sales are growing in importance and generating lower distribution costs across all markets. Improved, more diverse life insurance products are also beginning to appear on the market thanks to innovations in *bancassurance*, i.e., the sale of insurance products through banking networks.

TARGETING “EMERGING INSURED” WITH SUITABLY DESIGNED PRODUCTS

Sector-based players need to meet various challenges if they are to foster development in the African insurance market in terms of product planning and new product launches (introduction of mandatory insurance), distribution, status of brokers and the conditions under which they may exercise, operating performance issues bound up with new distribution channels and NICTs, human resources (continuous training), the regulatory (company size) and control environment, and enhanced ALM strategies, etc. Tax breaks will also have a certain impact on the growth of the sector and national associations and FANAF are constantly

lobbying governments to foster awareness of the various possible tax incentives that could be made available to savers.

Will the solutions to these challenges make it possible to target/reach emerging insureds, i.e., those individuals whose disposable income has grown, thus enabling them to allocate part of their surplus to things like personal risk insurance? It is up to insurers to design new marketing strategies with suitably adapted products that will successfully target the African middle classes that currently make up 34% of the Continent's population (source: AFDB). ■



The African life insurance sector

The African life insurance sector is organised around three “core structures”: (1) the family and community (traditional informal basis of solidarity); (2) public institutions such as CIPRES for the Franc area tasked with providing social security (healthcare, family and maternity allowances, and benefits in the event of incapacity, old age, work-related accidents or occupational illness, etc.³); and (3) private insurers (formal arrangements).

FOCUS SUNU GROUP

SUNU is an African insurance group set up in 1998 by Pathé Dione. Thanks to acquisitions and start-ups, the Group has gradually expanded into 14 West and Central African countries and now comprises 22 subsidiaries and affiliates together with a micro-finance entity based in Senegal (Kajas). In 2015, SUNU acquired a majority stake in a Nigerian insurer with subsidiaries in Ghana and Liberia.

3 • These various benefits are generally organised by scheme, e.g., public employees' scheme or general scheme for workers covered by the labour code.



Yield and climate-linked insurance - a boon for small farmers

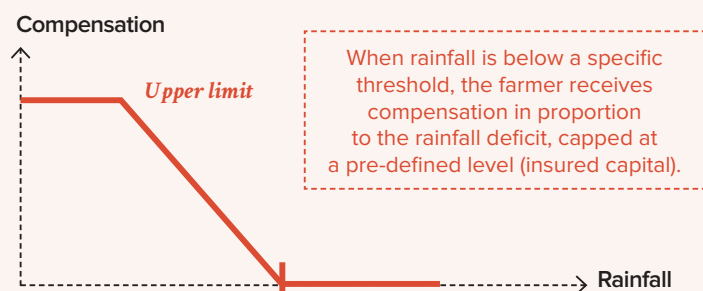
By Jean-Luc Perron, Managing Director, Grameen Crédit Agricole Microfinance Foundation
 Pierre Casal Ribeiro, Project Manager, Pacifica and Grameen Crédit Agricole Microfinance Foundation

Insurance based on yield or weather indexes is a way of protecting small farmers in developing countries against natural risks. This innovation has the potential to improve their living conditions and enhance both food security and climate change adaptation. Expanding its coverage is a key challenge and one that calls for close, long-term cooperation between the public and private sectors.

There are a total of 430 million farming units of less than two hectares in developing countries. The vast majority have neither private insurance cover nor access to public compensation schemes for agricultural disasters. To reduce their exposure to natural risks, these producers rely on community solidarity, precautionary savings and diversification – of crops and revenue sources. However, these practices provide only very limited protection and they have an implicit cost in the form of under-investment and lower yields.

Until recently such farmers were regarded as uninsurable: the sums to be covered were too low and the costs of administration, marketing and claims processing were too high. However, the advent of index-based insurance (box 1) has been a game-changer. Unlike traditional insurance, which requires the services of a local expert to assess economic loss with respect to a claim, index-based insurance draws on biometric data (supplied by satellite imagery or by surface weather stations) or on average yield data to model losses arising, for example, from insufficient rainfall (figure 2). By reducing administration, distribution and transaction costs, this innovative approach makes agricultural insurance affordable for small farms in developing countries.

➔ Rainfall-based index insurance



Source: authors



THE BENEFITS OF INDEX-BASED AGRICULTURAL INSURANCE

Index-based insurance circumvents the problems of adverse selection¹ and moral hazard² inherent in traditional insurance. The insured farmer does not have any influence over the index, which is based on objective data. The lower operating costs make it possible to insure small sums for very small farms and to compensate beneficiaries swiftly. Moreover, farmers are incentivised to achieve optimum output and to implement preventive measures because their compensation is based not on their individual situation but on the index. By assuming some of the risk, insurance effectively unlocks the investment capacity of these small-scale producers who can deploy more profitable strategies and thus secure crop loans more easily.

“Until recently farmers in developing countries were regarded as uninsurable. The advent of index-based insurance has been a game-changer.”

Consequently, insurance helps drive development and farm modernisation. Moreover, when the insurance is linked to a loan, the outstanding principal is repaid directly to the financial institution in the event of a claim. This means that the borrower remains creditworthy for the following year and the risk of default by the farmer is significantly reduced. →



Timeline of index-based insurance

Economists Harold Halcrow (1948) and Hematala Dandekar (1977) developed the concept of index-based insurance, based on a yield index.

1993: The first index-based insurance pilot scheme is introduced in the United States.

1999: After several years experimenting with yield indexes, India rolls out its National Agricultural Insurance Program.

2003: Private insurers enter the Indian agricultural insurance market and the first weather index-based product is marketed by ICICI Lombard.

2000s: Multiple pilot schemes are introduced worldwide.

2009: Creation of the Global Index Insurance Facility, a multi-donor trust fund managed by World Bank Group and supporting the development of the index-based insurance market.

2015: The first Global Index Insurance Conference is held in Paris.

FOCUS THE GRAMEEN CRÉDIT AGRICOLE MICROFINANCE FOUNDATION

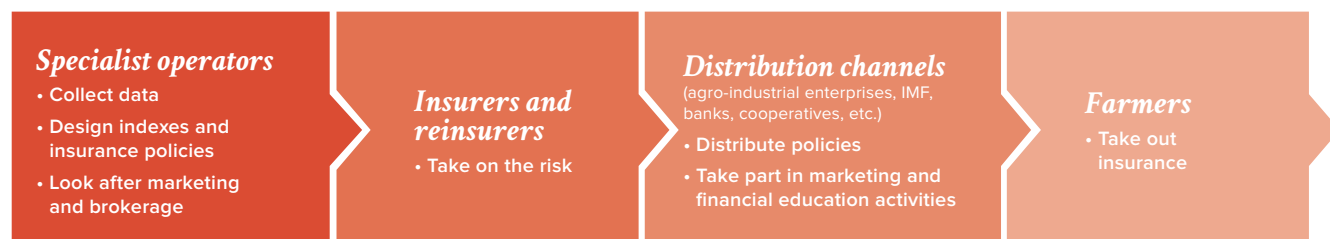
The Grameen Crédit Agricole Microfinance Foundation was set up in 2008 as an initiative of Crédit Agricole in partnership with Professor Muhammad Yunus, winner of the Nobel Peace Prize in 2006 and founder of the Grameen Bank in Bangladesh. The Foundation – which was given an endowment of €50 million by Crédit Agricole – provides loans, equity capital and technical support to 47 microfinance institutions and 13 social businesses in 27 developing countries, mainly in sub-Saharan Africa and South Asia.

1 ▶ When insurers are unable to select beneficiaries according to their level of risk they apply standard conditions (premium, compensation) for everyone.

2 ▶ Moral hazard refers to opportunistic practices by individuals who, knowing that they are insured, limit their preventive efforts and increase their exposure to risk.



➔ A complex chain of players



Source: authors

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MODELLING RISK REMAINS A CHALLENGE

Distribution of this new type of product can encounter some obstacles. Index-based insurance requires reliable data covering an adequate historic timeframe. Modelling the risk to be insured is the basis for setting the insurance rates so accuracy depends on the quality of the data collected. In many countries such data is lacking, mainly because the regional network of weather stations is defective. Basis risk – the potential differential between the loss estimated by the index and the actual loss suffered by the farmer – is the main challenge posed by index-based insurance. This differential can arise due to an index calibration error, to data of insufficient quality, or to topographical factors.

Index-based agricultural insurance also necessarily involves a complex chain of actors (figure ➔) from across multiple fields of expertise

(climatologists, agronomists, actuaries³). This complexity requires specialists (box ☞) who can simultaneously fulfil the role of consultants and insurance agents.

Index-based insurance is not suitable for managing certain types of risk such as price risk. It is used to supplement other instruments of a financial (e.g., appropriate types of savings products) or agronomic nature (drought-resistant seeds, improved cultivation techniques, etc.).

Finally, even though administration and distribution costs are low, price may still constitute a barrier – particularly as the very concept of insurance is often unfamiliar to small farmers and something they view with a great deal of suspicion. Local insurers also need to be able to source sufficient reinsurance capacity from the major global reinsurers at an acceptable cost.

NEEDED: PROACTIVE GOVERNMENT POLICIES

The deployment of autonomous, low-cost weather stations will undoubtedly improve the quality, regularity and granularity⁴ of the data collected, and technological innovations will definitely make it possible to reduce the basis risk. However,

developing index-based insurance more widely will require strong and sustainable support from governments or development finance institutions as well as close cooperation between major stakeholders from the public and private sectors.

3 • An actuary specializes in applying probability theory and statistics to questions relating to insurance, finance and social security.
4 • i.e., the level of detail in a set of data.



It should also be noted that some major countries (e.g., India, China and Mexico) have introduced very pro-active government policies in support of index-based insurance. In January 2016, India announced its intention to increase the annual state crop insurance budget to more than US\$1 billion with the aim of insuring 50% of total land area under cultivation (compared with 23% at present). Government support can also involve subsidising insurance premiums as well as investing in the public infrastructure necessary to develop index-based insurance – meteorological infrastructure, data, research and development – or even in additional overall reinsurance or securitisation capacities.

Although financial intervention by public authorities will undoubtedly be controversial, we need hardly point out that crop insurance is massively subsidised in most developed countries – to the tune of US\$5.6 billion per year since 2007 in the United States, for example.

State financial support will achieve its objectives all the more effectively if it maintains a level playing field and remains predictable over the long term, encouraging private stakeholders to fully commit to developing this promising market.

In other countries, the development of index-based insurance products and the creation of specialist operators are supported by international organisations – a prime example being the International Finance Corporation which manages a dedicated trust fund in this field, the Global Index Insurance Facility.

“Developing index-based insurance more widely will require strong and sustainable support from governments or development finance institutions as well as close cooperation between major stakeholders from the public and private sectors.”

Thanks to technological innovation and close, long-term cooperation between the public and private sector, a potential insurance market of some 430 million farming units is opening up with important knock-on effects in terms of food security.

Impact studies undertaken in several countries (China, India, Ghana, Malawi and Ethiopia) demonstrate the positive effects of agricultural insurance for farmers: increases in the land area cultivated, demand for loans, investment and income (De Bock and Ontiveros, 2013; J-PAL and coll., 2016). Governments, international organisations and private stakeholders can use agricultural insurance as a driver to help fight poverty and improve food security. It is also a promising vector for climate change adaptation, as mentioned in the Paris Agreement in the wake of COP 21. Moreover, because of its economic and social benefits, agricultural insurance in developing countries is also an excellent candidate for funding from the Green Climate Fund. ■



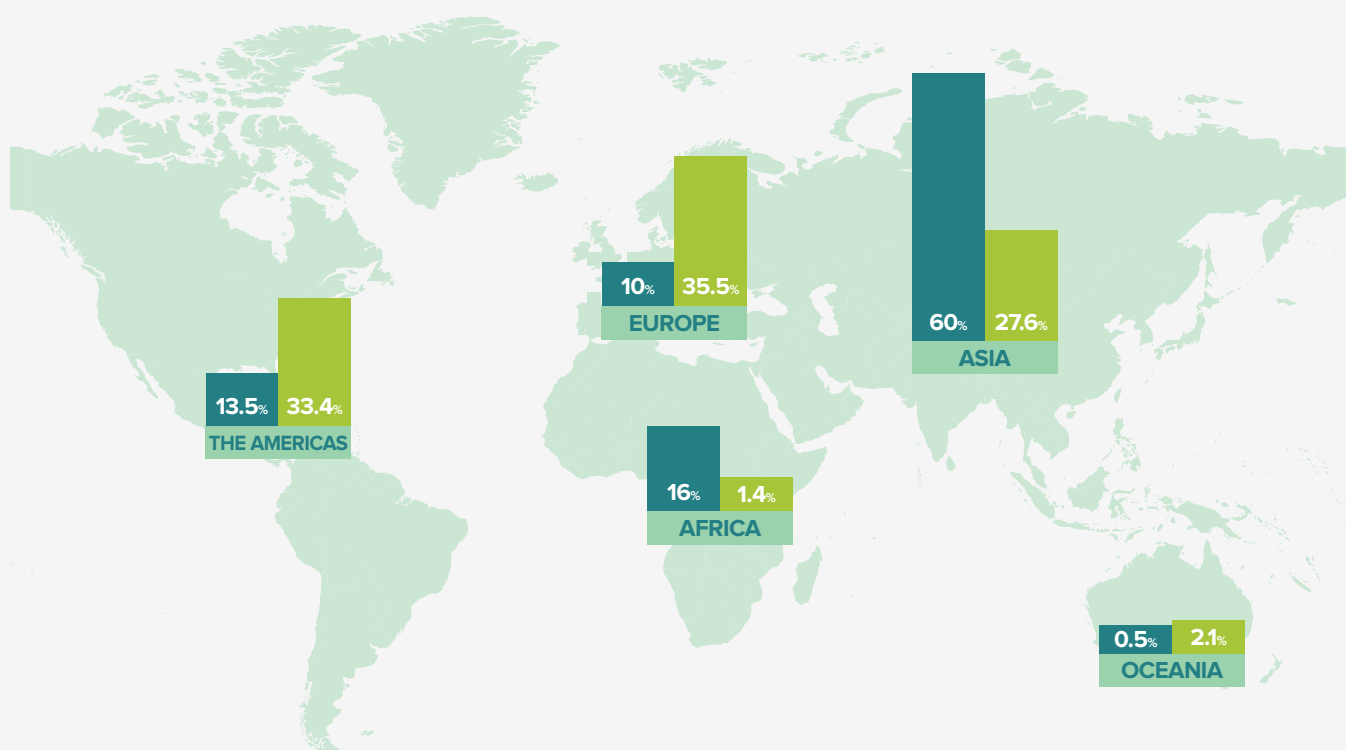
A “replanting guarantee”: the example of ACRE-Africa

ACRE-Africa is a Syngenta Foundation initiative established in Kenya in 2014 to develop a “replanting guarantee” in liaison with seed suppliers. The insurance premium is included in the price of a bag of seed which contains a card with a unique code. Farmers send this code by SMS to activate their cover. This also registers the farm location and initiates a three-week sowing and germination period. If the indexes show a lack of rainfall resulting in germination failure during this period, the farmer receives compensation for the cost of the seed or a voucher to obtain another bag of seed for replanting during the same season.



Insurance in Africa

Global insurance industry (2014) ▼

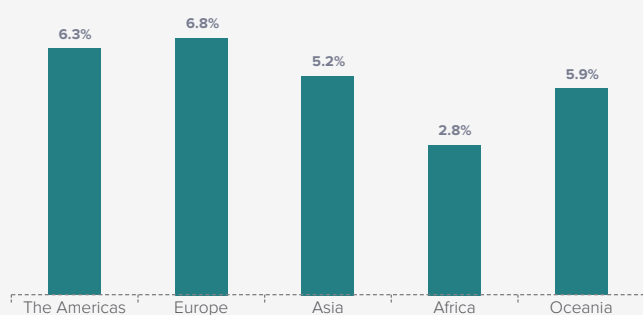


■ Share of global population

■ Share of global insurance industry

Source: FANAF, 2016 / UN, 2015

Share of insurance within GDP (by continent, 2014) ▼

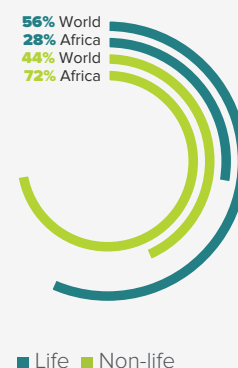


Source: FANAF, 2016

Share of life/non-life insurance in Africa* versus the World (2014) ▼

The insurance market in industrialised countries is dominated by life insurance, mainly in the form of savings. In developing countries, the opposite is the case: the emergence of the sector is spearheaded by non-life insurance, particularly auto insurance, and frequently driven by mandatory insurance requirements.

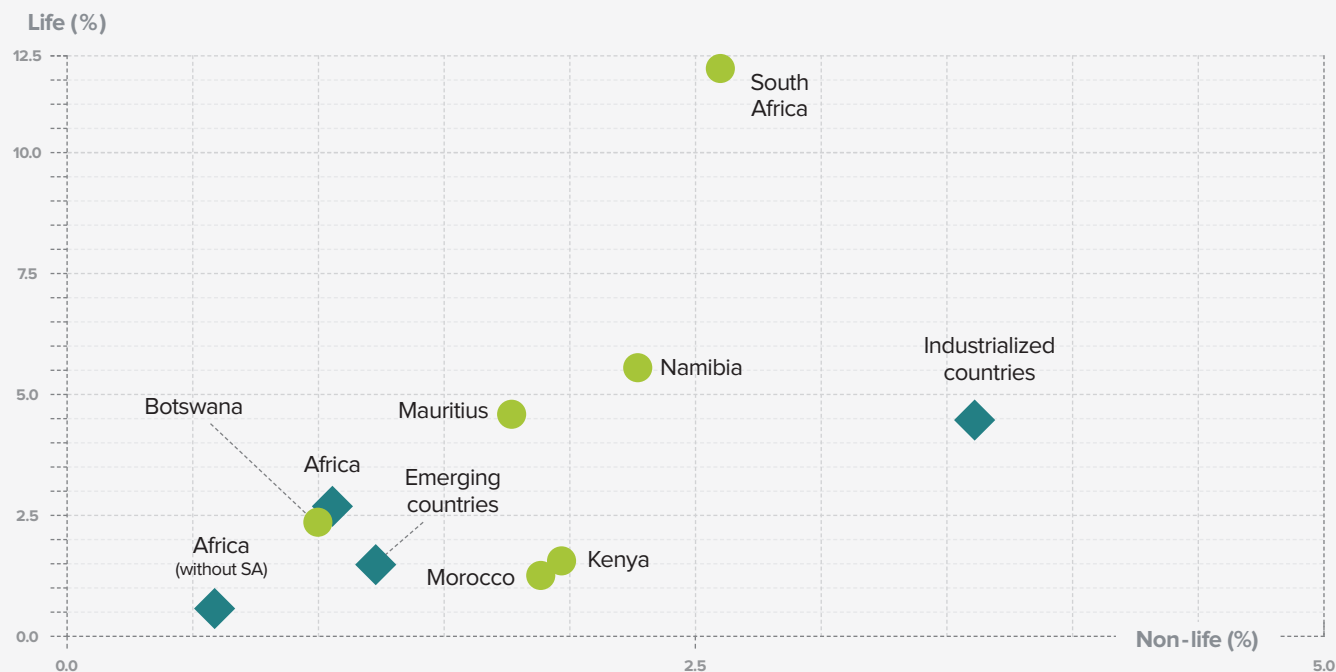
*Selection of 29 countries: South Africa, Algeria, Bahrain, Benin, Burkina Faso, Burundi, Cameroon, Central African Republic, Congo Brazzaville, Côte d'Ivoire, Gabon, Ghana, Guinea Conakry, Equatorial Guinea, Kenya, Madagascar, Mali, Morocco, Mauritania, Niger, Nigeria, Democratic Republic of Congo, Rwanda, Senegal, Sierra Leone, Tanzania, Chad, Togo, Tunisia.



■ Life ■ Non-life

Source: FANAF, 2016

Comparison of insurance penetration rates* ▼

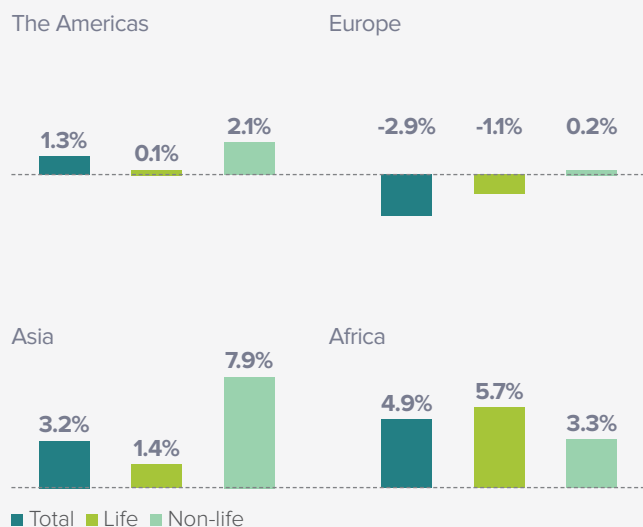


* Penetration rate = total premiums/GDP.

Source: Insurance in Africa, KPMG, 2015

Annual average change in premiums by continent (2010-2014) ▼

Growth rates are higher in emerging and developing countries than in European (mature) markets and this provides incentives for insurance companies looking for growth levers.



Source: FANAF, 2016

Insurance market broken down by African country (2013) ▼

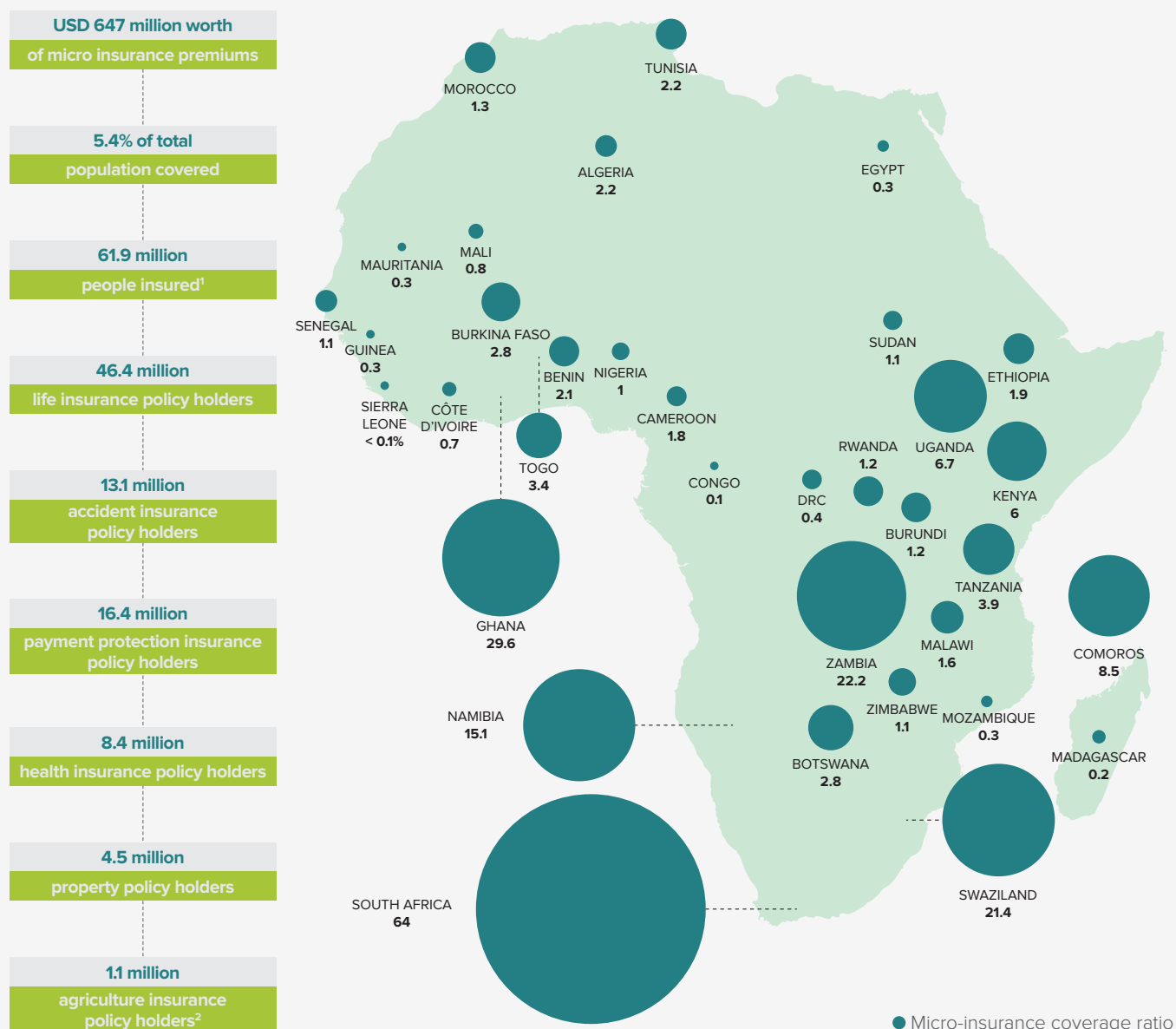
Country	Insurance premiums (in USD billions)	Penetration rate (premiums as % of GDP)
South Africa (SA)	51.6	14.1
Morocco	3.2	3.1
Egypt	1.9	0.7
Nigeria	1.6	0.3
Kenya	1.5	2.8
Algeria	1.5	0.7
Angola	1.1	0.9
Namibia	1	7.2
Tunisia	0.8	1.8
Mauritius	0.7	6
Other countries	4.9	0.8
Total	69.9	2.9
Africa (except. SA)	18.3	0.9

South Africa, with its very high penetration rate (14.1%) helps boost the overall penetration rate. Without South Africa, it would only be 0.9%.

Source: Swiss Re, 2013

KEY FIGURES

Micro-insurance in Africa (2014) ▼



Although life insurance products still dominate the region in terms of coverage rates, the biggest increases observed have been in Health and Agriculture insurance.



96 new products launched – against 45 products suspended or modified – for the mass market.



45% of micro-insurance products in the region were distributed through mass market distribution channels.

¹ It should be noted that the volume of coverage by type of product is not limited simply to the number of lives insured, demonstrating that many products are offered as add-ons to a principal micro insurance policy. Therefore, a lot of people are covered for several types of risks.

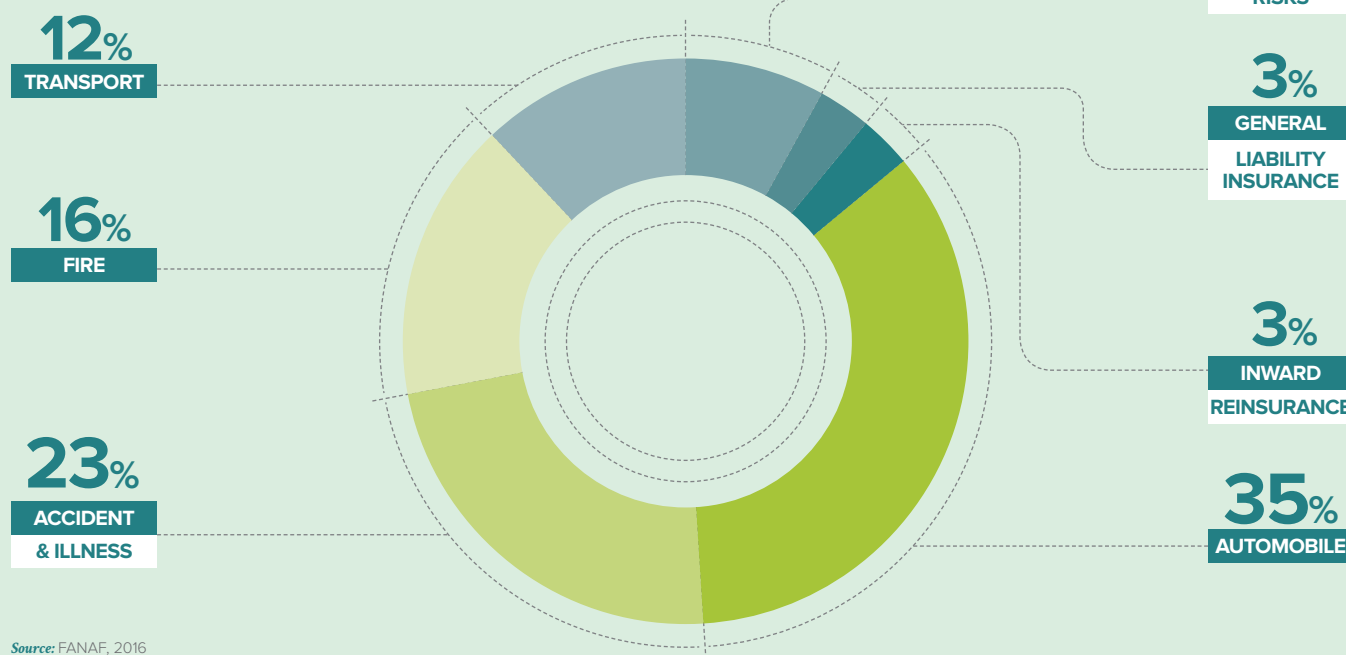
² Agricultural insurance coverage includes government-subsidized programs that were excluded from the study in 2011.

No micro-insurance products were identified in 18 countries: Angola, Cape Verde, CRA, Chad, Djibouti, Equatorial Guinea, Eritrea, Gabon, Gambia, Guinea-Bissau, Lesotho, Liberia, Libya, Mauritius, Sao Tomé-et-Príncipe, Seychelles, Somalia and South Sudan.

Source: Microinsurance Network, 2015

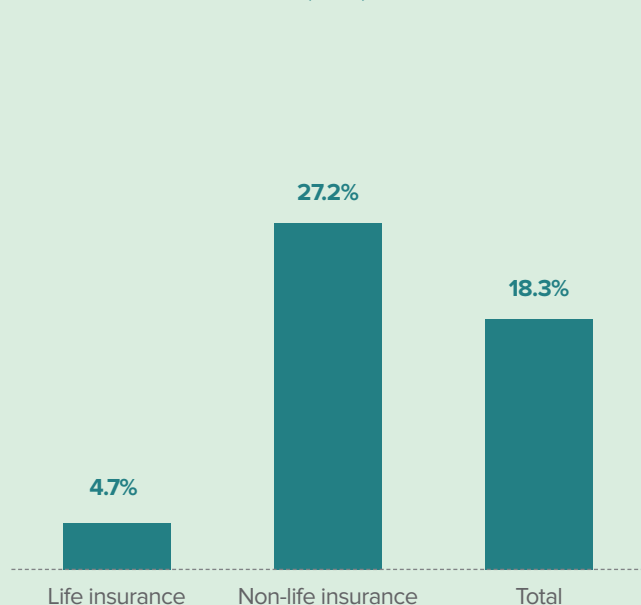


Breakdown of non-life insurance by segment in 15 African countries* (2014) ▼



Source: FANAF, 2016

Trends in outward reinsurance in 15 African countries* (2014) ▼



African insurers reinsure 18.3% of their premiums with reinsurers. By way of comparison, the global outward reinsurance rate is around 5%. The higher rate can be explained by the weak capital base of many African insurers as well as the higher proportion of non-life insurance which has a greater tendency to be reinsured.

Source: FANAF, 2016

Combined ratios in 15 African countries* (2014) ▼

■ Loss ratio / premiums ■ Overheads / premiums



The combined ratio is an indicator of non-life insurance profitability that compares claims settlement costs and overheads with earned premiums.

* Benin, Burkina Faso, Burundi, Cameroon, Central African Republic, Congo Brazzaville, Côte d'Ivoire, Gabon, Guinea Conakry, Mali, Niger, Rwanda, Senegal, Chad and Togo.

Source: OCDE, FANAF



Experiences in index-based insurance for farmers: lessons learnt from Senegal and Bangladesh

By Chloe Dugger, Operations Officer in the Finance and Markets Global Practice
Rachel Sberro, Research Analyst on agriculture finance at the World Bank Group

Index insurance is an innovative approach that pays out benefits based on a pre-determined index (e.g. rainfall, seismic activity, livestock mortality rates, etc.) for losses arising from weather and catastrophe events without requiring the services of insurance claims assessors. This article focuses on micro- and meso-level approaches to distributing agricultural index insurance and is based on the Global Index Insurance Facility (GIIF) experiences¹.

SENEGAL: MANDATORY INDEX INSURANCE TO ACCESS IN-KIND CREDIT

FOCUS WORLD BANK GROUP

The World Bank Group Finance & Markets Global Practice works to promote financial stability and to develop efficient and inclusive financial systems, at the global and country level. Working with public and private sector clients, the Finance & Markets Practice Group is committed to support the World Bank Group's goals of eliminating extreme poverty and promoting shared prosperity.

In Senegal, GIIF has partnered the state agricultural insurer (CNAAS) in developing index insurance for groundnut farmers against drought. CNAAS sells index insurance products through farmer cooperatives, microfinance institutions or agricultural banks. These aggregators are key stakeholders and provide a range of services, including inputs on credit (or 'in-kind' credit), market access (acting as intermediaries between farmers and large buyers), advice and information (best agricultural practices, weather information etc.).

Over the past three years, certain farmer cooperatives have begun to offer insurance along with in-kind credit. These cooperatives have made insurance mandatory for farmers who

want to access in-kind credit. Farmers repay their loans (including the insurance premium) at the end of the harvest by selling their production to the cooperative. In 2015, approximately 2,700 groundnut farmers were insured.²

Farmer cooperatives have thus become the first recourse for insurance claims and they only pay out to farmers who have reimbursed their loans at the end of the season. In 2015, 36% of payouts were retained to cover non-repayment of in-kind credit by insured farmers.³

This example of micro-level distribution demonstrates how index insurance can be incorporated into agricultural lending schemes. By enhancing their creditworthiness through insurance pro-

1. The GIIF is a multi-donor trust fund financed by the ACP Group/EU, the Japanese Ministry of Finance and the Dutch Ministry of Foreign Affairs. It helps develop weather and catastrophe index insurance in developing countries throughout the world. GIIF's regional partners have insured €138 million of assets for over 1.2 million small farmers and small businesses and provided millions of people with information and access to index insurance.

2. In 2015, almost 9,000 farmers initially enrolled but did not ultimately purchase cover. This figure compares to enrollment of 5,667 in 2014, 2,325 in 2013 and 60 in 2012.

3. Survey of 212 farmers conducted in December 2014.

tection, participating farmer cooperatives and farmers hope to be able to borrow more on better terms. Indeed, Senegalese farmer cooperatives indicate that they have more bargaining power in their relationship with financial institutions.

However, while several studies have shown the significant impact of agricultural insurance on farmers' risk-taking behavior,⁴ firm evidence of its impact on credit availability is still scarce. An initial analysis of lending activity by Senegalese farmer cooperatives suggests that only a

small amount of production credit accessed by small farmers is currently linked to insurance (less than 5% in 2014). Even for large scale, well-established insurance programs in India or Mexico for example, there is no conclusive evidence that insurance has protected agricultural lending (e.g. by reducing non-performing loans in bad years), or been used by financial institutions to expand agricultural lending (through larger volumes of credit, broader segments of borrowers, cheaper rates, longer maturities, etc.). Additional research is definitely required.

BANGLADESH: INDEX INSURANCE AS A RISK MANAGEMENT TOOL

PRAN Foods, Bangladesh's largest agri-processing firm, purchased meso-level index insurance from Green Delta from January to June 2016.⁵ GIIF partnered Green Delta's development of this index-based product which insures cassava (the glucose used to manufacture energy drinks against cold spells and excess rain at critical stages of the crop cycle. 60 farmers on 100 acres have been insured for the first-half of 2016.

PRAN purchased this insurance to cover the expected harvest value of the 100 acres selected for the pilot program (i.e., approximately USD130/acre for a total of USD13,000). PRAN is both policy holder and insured party: it paid the premium and will be the sole beneficiary of any payouts. It plans to use these to help cover liquidity needs in the event of insufficient local supply due to a major weather shock. In the event of less severe shocks that do not significantly threaten local supply, PRAN is considering giving

payouts to farmers as a 'bonus', thus introducing them to the benefits of insurance as a first step in transitioning from meso-level coverage purchased by the company to micro-level coverage. Future micro-level arrangements would have individual farmers as the insured party with the company and farmer potentially sharing the cost of the insurance. PRAN believes that access to micro-level insurance would encourage more farmers to grow this relatively new crop. →

“Index insurance has considerable potential for boosting the development goals of enhanced access to credit and markets.”

4 • Karlan D., Osei R., Osei-Akoto I. et Udry C., "Agricultural Decisions after Relaxing Credit and Risk Constraints", *The Quarterly Journal of Economics* 129.2, 2014; Ghada E. and Carter M., "Basis Risk and Compound-risk Aversion: Evidence from a WTP Experiment in Mali", *Index Insurance Innovation Initiative*, 2014.

5 • Agricultural processors can also be aggregators for micro-level coverage as the example of two Mozambican cotton companies shows. In 2012-2013, approximately 40,000 cotton contract farmers were insured. The farmers were informed of the coverage and the cost was deducted along with input costs from their delivery payment at harvest.

“Index insurance speeds up claims settlement by dispensing with loss assessments: payouts are determined on an objective basis which eliminates the risk of fraud.”

While it remains difficult to draw conclusions about the impact of meso level coverage, the PRAN case study does provide some useful research pointers. First, meso-level coverage may improve access to markets. PRAN is new to contract farming in Bangladesh and its scheme has provided a whole new market for smallholders in the area. The availability of insurance for their supply of raw materials may prove to be a critical factor in establishing a sustainable local source of cassava. Second, PRAN's idea of

transitioning from meso-level to micro-level coverage for individual contract farmers provides an interesting illustration of J. R. Skee's development stages of index insurance.⁶ PRAN's meso-level arrangement is currently aligned with stage one, where products are sold to aggregators to insure against natural disasters. By purchasing this insurance, PRAN limits its liquidity risk in the event that it has to import significant amounts of cassava due to local crop failure. PRAN's idea to use payouts as “bonuses” would actively facilitate a shift to stage two where the insurance provides a direct benefit to farmers. Third, meso-level insurance for agriculture value chain actors such as PRAN may represent a more attractive business opportunity for insurance companies as agribusinesses have a vested interest in insuring the value of agricultural production and not merely the value of inputs.



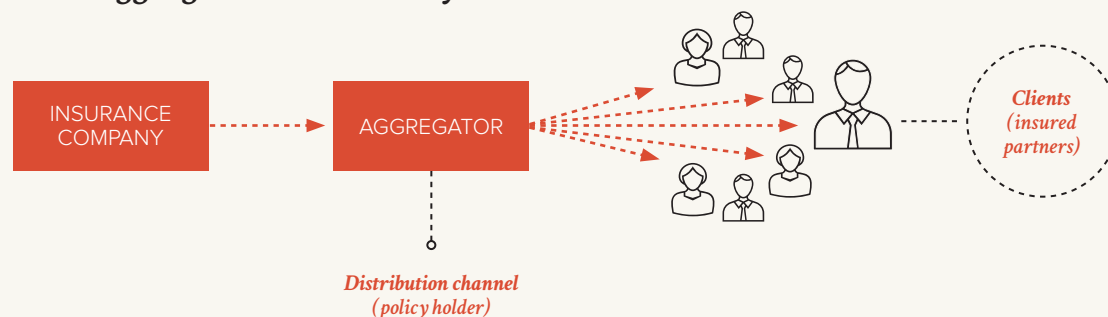
Distribution of micro- and meso-level insurance

Micro-level insurance policies are for individual farmers. Most are sold through aggregators such as financial institutions or agricultural cooperatives. The aggregator is usually the policy holder, making administration easier for the insurer, but individual farmers are the insured parties who ultimately pay for and benefit from the coverage. Insurance is sometimes mandatory for farmers working with the aggregator, e.g., those receiving a loan from a microfinance institution (MFI) or inputs on credit from a contract farming scheme.

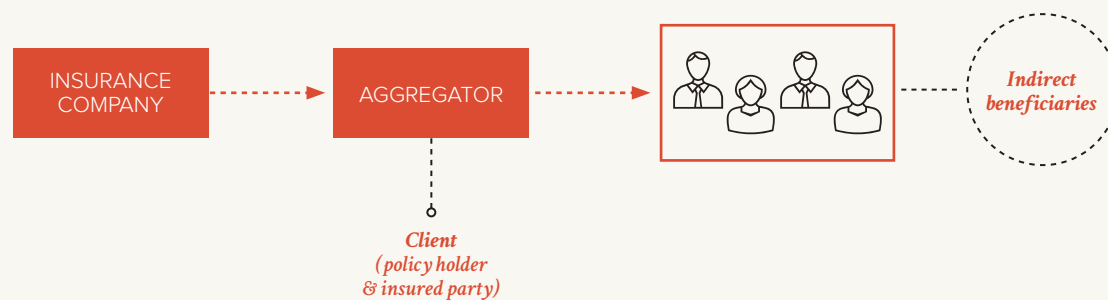
Meso-level distribution provides insurance to organizations for risk management purposes. The aggregator is policy holder, insured party and direct client of the insurer. Financial institutions can purchase policies to cover default risks arising from major agricultural shocks. Agri-processors can purchase policies to cover the risk of non-recovery of inputs advanced to contract farmers or insufficient supplies of raw materials due to agricultural shocks. Meso-level distribution is a recent development and examples are still quite rare.

6 • Skees, Jerry R. “Challenges for Use of Index-based Weather Insurance in Lower Income Countries.” *Agricultural Finance Review* 68:1 (2008): 197-217.

⊕ Micro-level coverage: the aggregator as a delivery channel



⊕ Meso-level coverage: the aggregator as a client



Source: authors

The potential premium volumes represented by the former are far greater than those of the latter.

Although index insurance has considerable potential for boosting the development goals of enhanced access to credit and markets, solid research evidence is still lacking for both micro-

and meso-level distribution arrangements and future research needs to focus on the advantages and disadvantages of both. The relative merits of micro- and meso-level distribution will generally be strongly influenced by the context-specific constraints that the products are intended to tackle. ■



Expanding health insurance coverage with private players

By Eneida del Hierro, Project Manager in the Financial Institutions and Support to the Private Sector division
Aurore Lambert, Project Manager in the Health and Social Protection division of the Agence Française de Développement (AFD)

Health insurance is a complex product, and the challenge is to find the balance between public health goals and financial profitability. This means defining effectively the scope of treatment, the scale of treatment costs, the method of reimbursement and improving the quality of care. Partnerships with tried-and-tested and comprehensive distribution channels can help remedy the low coverage rate of the informal sector in Africa.

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Barroy and coll. (2015).

In Africa, 60 to 70% of health expenditure is paid by households direct to healthcare institutions, compared with an average of 46% worldwide¹. A serious accident affecting health may therefore involve “disastrous” expenditure, forcing those households to sell their property, get into debt (Leive and Xu, 2008) or take their children out of school (Landmann and Frölich, 2013) to cover their medical costs (Kruk and coll., 2009). Each year, 6% of the world's population falls into extreme poverty for health reasons.

By spreading health costs over time using a prepayment mechanism and by mutualising the risk, insurance makes it possible to avoid these “disastrous” health expenses. Unlike other products, health insurance is not limited to making payments to cover a loss or damage, but relies on a third party (healthcare providers) to give its beneficiaries access to treatment.

Consequently, the main risks linked to any insurance product (adverse selection, fraud and moral hazard) occur more acutely in health insurance². An effective health insurance system essentially requires quality control of, and even investment in, healthcare provision.

In Africa, some governments have set up mandatory health insurance for the formal sector (civil servants or employees of private businesses) financed by contributions from employees and employers. However, cover for workers in the informal sector (farmers, artisans, etc.), i.e. more than 70% of the African population, remains a challenge. Several profit or non-profit private actors (insurance companies, mutual schemes, brokers, various distribution and management channels facilitating the identification of the insured, the collection of premiums and the payment of claims) can play a very important role.

1. “Out-of-pocket expenses/total private expenditure” ratio, World Bank, 2010-2014.

2. Fraud may represent up to 20% of health insurance premiums in developing countries.

HEALTH INSURANCE, A COMPLEX PRODUCT

Health insurance products are more complex to develop than other types of insurance because of the range of treatments and services to be covered. While it is essential to include hospitalisation to avoid “disastrous” health expenditure, cover for outpatient treatment on the other hand reduces the risk of medical complications resulting from not having treatment.³ Decisions as to which services to include or exclude are central to achieving the social goals. By setting conditions for the cost of the insurance cover, they impact on households’ ability to take out such insurance.

The extent of the costs to be covered is an essential consideration for both the insurer and the insured. Indirect costs (purchase of medicines, travel etc.) may, for example, represent up to 65% of hospitalisation costs. And some insurance policies also cover loss of earnings during treatment, which may represent a significant sum for self-employed workers who do not benefit from sick leave.

“The extent of the costs to be covered is an essential consideration for both the insurer and the insured. Indirect costs (purchase of medicines, travel etc.) may represent up to 65% of hospitalisation costs.”

Likewise, the chosen health benefits payment system is closely related to the question of treatment affordability. The third-party payment system has the advantage that the insured person does not have to advance the costs because the healthcare provider is reimbursed by the insurer. This simplified financial access also reduces the likelihood of treatment being refused. In terms of management for the insurer, the two systems (third-party payment or reimbursement of the insured) each have their advantages and disadvantages – even if third-party payment may be less expensive in terms of management costs.→



Measuring performance in microinsurance

The value of health insurance products needs to be measured, monitored and explained clearly to insured persons. Several user-friendly tools have been developed by the industry which have the benefit of standardising measurement indicators. These include the “Key Performance Indicators” devised by the Luxembourg NGO, ADA, and the Belgian Foundation, BRS, under the aegis of the Micro Insurance Network. Some of these financial and social Key Performance Indicators (ratio of losses incurred, retention rates, growth ratio, promptness of claims settlement, and claims rejection ratio) mean that the value of an insurance policy for the insured can be measured simply.

Another useful tool is the “PACE” tool, developed by the International Labour Organization’s Impact Insurance Facility. It measures the four main elements that comprise an insurance policy’s value: its terms (risks covered, extent and quality of treatment), access (ease of taking out a policy, geographical accessibility), cost (premium or contribution in relation to the insured’s resources and level of losses) and experience (clarity of contracts, ease of procedures, speed of claims settlements, etc.). This tool is more of a self-assessment and management tool for the insurer.

3 • Due to their fear of spending money on medical care, many households prefer to refuse treatment. This often leads to health complications, with major financial and human consequences.



The value of health insurance is also based on the quality of care to which the insured have access. The insurer depends on the treatment offered locally, but can influence it by choosing which healthcare providers they will work with and determining the partnership arrangements. For example, some insurers assess the quality of their healthcare providers and link remuneration to the results. The setting-up of liaison bodies

between healthcare facilities and the insured (call centres, monitoring committees, complaints procedures, etc.) provides accountability with regard to the insured. Representatives of the public health authorities may also be involved, which ensures complementarity between public systems (when they exist) and private initiatives.

WHAT INSURANCE IS AVAILABLE FOR INFORMAL WORKERS?

“Each year, 6% of the world’s population falls into extreme poverty for health reasons.”

In Africa, health insurance coverage rates remain extremely low (map ↗). While the mandatory health insurance offered by governments to civil servants and private-sector employees is beginning to achieve significant penetration, there is a very low take-up of voluntary insurance aimed at the informal sector. This can be explained mainly by informal workers’ limited ability to contribute, or the lack of understanding of insurance mechanisms, but is also due to a lack of trust in insurers, hospitals and health centres.

What is more, few insurance sector actors “venture” into these markets, because of the complexity of the product, a lack of understanding of the needs, the difficulty in collecting premiums and the risks of adverse selection (affiliation of persons most likely to have health issues). Providers that have entered this market, most frequently mutual funds or NGOs, struggle to extend their customer base to ensure their sustainability. Their challenge: to find the most efficient ways of encouraging the largest possible number of people to take out policies.

The tried-and-tested and comprehensive distribution channels (microfinance institutions, mobile telephone operators, etc.) have been approached to offer simple insurance products, systematically and obligatorily coupled with other



AFD Group and health insurance

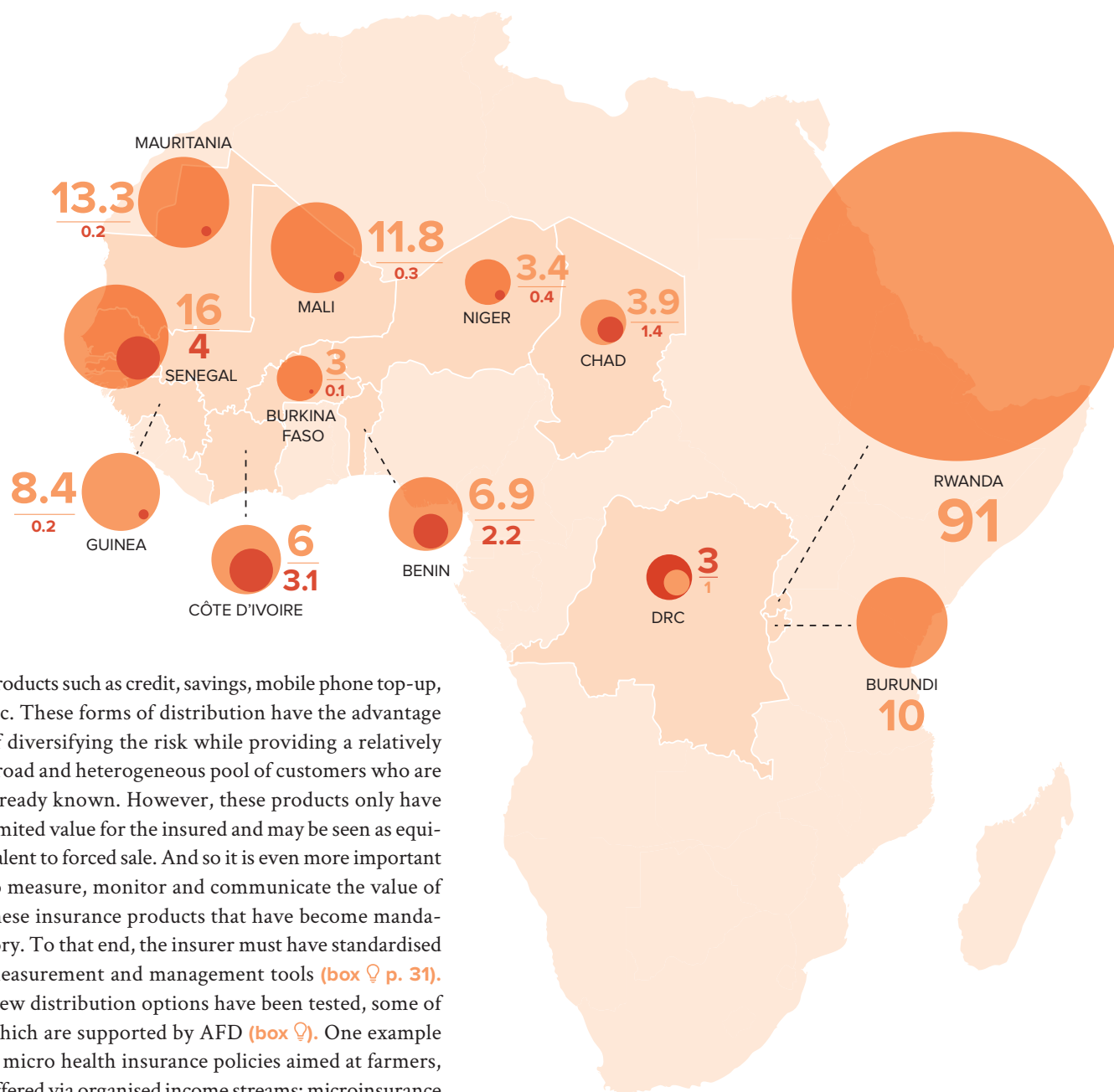
AFD supports the setting up, extension and reform of health insurance systems, in compliance with the principles of universality (cover for the entire population), solidarity (contribution according to resources and not according to consumption of care) and sustainability (sustainable financing mechanisms of the system).

To achieve these objectives, AFD follows the WHO recommendations: mandatory participation, prepayment of contributions, broadest possible mutualisation of risks, and contribution on the basis of resources, including being free of charge for the poorest. Occasionally, AFD supports private initiatives from profit or non-profit actors (insurance brokers, NGOs, funds, foundations etc.). The Agency has a variety of tools, ranging from a subsidy to a sovereign loan, and including investment in insurance companies or funds via Proparco or its Investment and Support Fund for Businesses in Africa (FISEA).

⊕ Health insurance coverage rates in Africa (in % of the population)

■ Mandatory insurance ■ Voluntary insurance

Source: data compiled from Preker and coll. (2010), Barroy and coll. (2015)



products such as credit, savings, mobile phone top-up, etc. These forms of distribution have the advantage of diversifying the risk while providing a relatively broad and heterogeneous pool of customers who are already known. However, these products only have limited value for the insured and may be seen as equivalent to forced sale. And so it is even more important to measure, monitor and communicate the value of these insurance products that have become mandatory. To that end, the insurer must have standardised measurement and management tools (box ♀ p. 31). New distribution options have been tested, some of which are supported by AFD (box ♀). One example is micro health insurance policies aimed at farmers, offered via organised income streams: microinsurance experts identify the health risks of the populations targeted, draw up suitable health insurance policies, select a network of treatment centres appropriate to the patient base and train or recruit monitoring personnel. →



“Oversight and relevant and effective regulation of health insurance operators can enable the various actors to fulfil their role in the system so as to achieve universal health cover.”

FOCUS AFD

The Agence Française de Développement (AFD) is a public financial institution that implements the policy defined by the French government. Its mission is to combat poverty and promote sustainable development by supporting projects that improve people's living conditions, boost economic growth and protect the planet. In 2015, the AFD earmarked €8.3 billion to finance projects in developing countries and for overseas France.

This leads to the development of original partnerships between insurance companies or mutual health insurance providers and farmers cooperatives, or even with raw-materials trading companies with an interest in partially co-financing the insurance premium, insofar as it helps to secure their supplies.

And lastly, governments have a key role to play in promoting health insurance in the informal sector by relying on private organisations (box 9). This collaboration can take several forms: encouraging people to take out insurance by drawing up a subsidised healthcare offer, outsourcing

the management of health insurance to private companies, oversight, reinsurance, etc.

Private health insurance actors, profit or non-profit, have a part to play in national health insurance systems. There are four main possibilities (Kimball et coll., 2013): substitution, in areas where the state does not have the capacity to provide cover for the entire population; foundation, as in Ghana where most community mutual aid organisations became part of the national system; partnership, as in Côte d'Ivoire or India where the state outsources responsibilities to the private sector; and lastly complementarity, as in France and in several emerging economies, where the private sector offers complementary health insurance.

Oversight and relevant and effective regulation of health insurance operators can enable the various actors to fulfil their role in the system so as to achieve universal health cover, in line with the goals of solidarity, universality and sustainability. ■



Ghana: the success of a public-private system

The Ghanaian health insurance system, called the National Health Insurance Scheme (NHIS), is based on pre-existing community mutual health schemes. To extend health cover to all Ghanaians, in particular to the informal and rural sectors, the government defined a reference package of health care (outpatient and inpatient) and invited mutual schemes to become affiliated to the national system in exchange for financial support, or to remain independent, provided they did not compete with the national scheme. Most of the mutual funds joined the system. More than 70% of the NHIS financing comes from a 2.5% tax on goods and services, and over 20% comes from by social security contributions. The remainder is financed by the premiums paid by the beneficiaries and by donor contributions.

The alliance with the community mutual schemes has enabled the rate of coverage of the Ghanaian population to be increased, rising from 1% in the 1990s to more than 40% today.

The Ghanaian model illustrates a public health insurance system relying on private actors. In addition, their expertise may prove useful to governments, particularly regarding the purchase of healthcare provision, local skills training and establishing accountability and transparency frameworks for healthcare facilities.

Morocco: medical assistance for micro-business owners

By Youssef Bencheqroun, Managing Director of Al Amana Microfinance



Al Amana is Morocco's leading microfinance institution, both in terms of customer base and the amount of credit provided. It operates throughout the country, supporting a vulnerable population by offering a broad range of products and financial services.

In 2005, Al Amana created a first disaster relief fund, which pays any capital amounts remaining due on the beneficiary's death or in the event of disability. This fund, which made it possible to secure the organisation's portfolio, became a form of micro-insurance for beneficiaries and their families.

A few years later, in partnership with an insurer, the association carried out a research study on the insurance needs of micro-business owners. The findings showed that their primary concern was to protect the physical health of the head of the family and the family in general, followed by their children's future, and to prepare for their "old age", much more so than protecting against material damage. A relationship of trust is the other aspect highlighted by the study: this translates into the need to provide micro-business owners with simple procedures and a rapid response in the event of an insured loss.

In order to meet the needs of vulnerable populations, these findings led Al Amana to team up with an emergency assistance provider,¹ which specialises in providing emergency assistance packages and is capable of responding in real-time following a call from the customer. As a result of this cooperation, the "Tayssir Al Amana" package was developed, comprising a "medical assistance" policy section and a "death benefit" policy section. The fixed benefit consists of a call-back from a multilingual medical call centre,

ambulance transport, a sliding scale of daily hospital allowances depending on the nature of the critical illness, a fixed funeral payment (including the completion of administrative formalities), a fixed disability benefit of MAD 2,500 (equivalent of the minimum monthly wage in Morocco), or even a fixed maternity benefit. The product costs MAD 6.50 per month for a single person and MAD 9.50² for a family.

At the start of 2016, Al Amana was insuring almost 320,000 micro-business owners and 1.1 million private individuals (including their families). Its position as a micro-credit agency has been key to delivering these results: the association has been able to market its insurance to its clientele of micro-borrowers through its countrywide retail network. Tailoring the product to poor customers was also an important factor. Finally, by providing a service at each "stage" (ambulance, burial, etc.), the association was able to mitigate any reputational risks that could be associated with a standard insurance service.

The "Tayssir Al Amana" product has successfully replicated the bank insurance model within a micro-finance institution. Its balanced approach and simple administration overcome cost constraints while delivering the requisite quality and responsiveness. Al Amana now aims to extend this offer beyond the circle of micro-borrowers and provide further benefits. ■

FOCUS AL AMANA

Founded in 1997, Al Amana Microfinance is governed by the laws regulating microcredit activities. As a market leader in Morocco, the association has a retail network covering the whole country. It has 597 sales outlets, including 280 in rural areas and 86 mobile branches. By the end of 2015, Al Amana had provided 1.5 million customers with almost four million loans, for an overall total of close to MAD 30 billion.

1 • Insurance company specialising in emergency response: for example, medical repatriation for travellers.

2 • Equivalent of €0.60 and €0.85.



Micro-health insurance: the user perspective

By Lara Gautier, Doctoral student at the Centre d'Études en Sciences Sociales sur les Mondes Américains, Africains et Asiatiques (Université Paris Diderot - Paris 7), École de Santé Publique and Institut de Recherche en Santé Publique (Université de Montréal) // Isabelle Guérin, Research Director at the Centre d'Études en Sciences Sociales sur les Mondes Américains, Africains et Asiatiques (Université Paris Diderot - Paris 7) // Albino Kalolo, Lecturer at St. Francis University College of Health and Allied Sciences in Morogoro (Tanzania) // Annabelle Sulmont, Monitoring and Evaluation Director for Policy Planning at the Mexican Agency for International Development Cooperation (AMEXCID)

There are many social and cultural obstacles facing micro-health insurance in developing countries. While disadvantaged communities develop their own solidarity, risk-sharing and planning mechanisms, they remain wary of the concept of insurance. Studies carried out in Tanzania, India and Mexico show that beneficiaries are generally critical of the low-quality services available.

Micro-health insurance was inspired by the concept of micro-financing. There are various models, including community, private, public and public-private systems, all sharing the common principles of advance premium payment and risk sharing. The rise in new technologies offers prospects of simpler procedures and growth in this type of insurance. However, with buy-in, loyalty and ultimately access to care remaining low, micro-health insurance would only cover 5% of the population in developing countries (Lloyds, 2009). In West Africa, and particularly in Burkina Faso and Mali, there are almost 200 mutual insurance companies

per country. Yet coverage is still lower than 4% (Burkina Faso Ministry of Civil Service, Labour and Social Security, 2013; Touré *et al.*, 2014).

Available studies focus mainly on the “quantifiable” elements of demand, essentially premium levels and the willingness of households to pay. But a more qualitative approach that highlights the user’s perspective can bring important insights to the analysis, particularly with regard to the quality of healthcare and to social perceptions of micro-insurance. The following three case studies, presenting the reform of a community-based programme in Dodoma, Tanzania, and the operation of state-funded programmes in India and Mexico¹, enable better understanding of the challenges facing micro-health insurance.

TANZANIA: AN EVOLVING HYBRID SYSTEM

Tanzania’s micro-health insurance system, the Community Health Fund (CHF), was established in rural areas in 2003. It is a voluntary system

based on an annual premium of two to four euros. Although it aimed to reach 60% of households, its coverage has levelled off at around 7%.

¹ The studies in Tanzania and Mexico were conducted by Albino Kalolo and Annabelle Sulmont respectively, as part of their doctoral research. The Indian case study was part of the “Labour, Finance and Social Dynamics” research programme coordinated by Isabelle Guérin at the Institut Français de Pondichéry. All three cases studies encompass a wide range of stakeholders (patients, representatives from insurance organisations and companies, healthcare personnel, government representatives, etc.).



There is widespread dissatisfaction regarding the quality of care and reception in public facilities (Kalolo *et al.*, 2016). Patients complain of a shortage of medicines, a lack of diagnostic equipment and long waiting times. The CHF model was restructured to give every member an electronic card entitling them to free healthcare access and to include hospitalisation in the range of care covered. But with services remaining mediocre, patients are still sceptical about the reform. As well as this, the original plan to have a community-managed system, with the particular purpose of stimulating membership

(Mtei et Mulligan, 2007), is rarely implemented in practice.

The micro-health insurance offer would benefit by taking inspiration from local culture and solidarity practices. For example, Tanzania has mutual risk-sharing funds called “Upatu”, designed to help beneficiaries in emergencies (such as disease or serious accidents). They are only used to prepare for natural social events (such as funerals and weddings) and not for healthcare, but marketing strategies could try to introduce healthcare programmes as major social occasions.

INDIA: SUSPICIOUS OF THE INSURANCE CONCEPT

In India, a national voluntary health insurance programme (Rashtriya Swasthya Bima Yojana, or RSBY) aimed at poor communities and casual workers was nationally established in 2008. In September 2015, it had more than 40 million users, around 3% of the Indian population. Largely subsidised by government authorities at national and regional levels (to the equivalent of 40 eurocents per family per year), RSBY is implemented by private and public institutions, health centres and insurance companies, selected through a tendering process. Implementation varies greatly from state to state. In Tamil Nadu (in the south of India), it is entirely state-funded and users do not have to pay a premium. There is also a profusion of private insurance companies aimed at the middle and upper classes.

Eligible hospitals are selected by tender which should, in theory, guarantee a level of quality. However, in practice, it is very inconsistent. Many facilities suffer from a shortage of equipment and medicines and, as few are eligible, they are quickly overloaded. Staff are sometimes reluctant to welcome new, often illiterate, rural communities, who are perceived as a disruption to their traditional patient groups. Finally,

although it has recently been re-evaluated in some states, the maximum payout a family can claim remains low at 30,000 Indian rupees per year – the cost of a simple fracture.

Patients are prepared to pay for private care, but are extremely reluctant to pay for more generous insurance. In fact, they remain suspicious of the very concept of insurance. In Tamil Nadu, health problems are considered “accidents”; why pay for something that may never happen? Yet these communities are perfectly capable of planning: they undertake sophisticated calculations and long-term projections, usually in connection with social and religious ceremonies. Any surplus money is injected into the social network (as a gift exchange or loan), and this same network is called on for support when needed. What’s more, the principle is made explicit in the terms used to describe these transactions: contributing to a ceremony is not an expense but a saving, while lending to an acquaintance is not a loan but an “investment in people”.

As in Tanzania, communities prefer to invest in their social network rather than paying an insurance premium to a body of anonymous individuals whose actions are, in their view, unreliable. →

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MEXICO: FREE SERVICE TO THE DETRIMENT OF QUALITY

Mexico's "Seguro Popular" (SP)², the public health insurance system established in 2003, hampers the development of a private micro-insurance offer by covering its potential clientele: the informal sector. The SP should be partially financed by its users, especially for higher social classes. In reality, the government subsidises the entire programme, regardless of income.

SP users have access to a package of ambulance and hospital interventions and laboratory examinations. Membership extends to 95% of the population (almost 52 million people) who don't have access any other social security system.

This state-funded healthcare system is supplemented by a parallel private insurance system, similar to the one in Tamil Nadu, but not as established. However, demand for their products is negligible, mainly because of their high price and low coverage. Although people prefer to use the free SP healthcare service, they are critical of its services for the same reasons we have already seen: inadequate care provision, excessive waiting times and the poor attitude of healthcare personnel. Therefore, depending on the urgency and nature of the care needed, patients combine services. For example, they may use SP for childbirth, child vaccination and monitoring of diabetes, but pay a private hospital to treat accident injuries, or employ a "partera" for postnatal care.³

As in India, rather than preventing healthcare issues, communities prefer to rely on free, state-funded care structures, notwithstanding their deficiencies, and on the mechanisms of family and community solidarity if payment becomes necessary. As membership of SP is free, the insurance concept is intermixed with the principle of solidarity.

Against this background, there is no room for paid health insurance unless it differentiates

itself from SP and offers true added value in terms of the quality of care and attention patients receive. In fact, Zurich insurance company tried, unsuccessfully, to develop such an offer in collaboration with a network of micro-financing bodies (Sulmont, 2014).

These three examples show that micro-insurance faces social and cultural obstacles. Clearly, these can only be overcome if the standard of care offered meets users' requirements, and if local perceptions and solidarity systems are better integrated and taken into account by public authorities. Better links between paid and free methods of accessing care are also crucial.

The studies in Tanzania, India and Mexico show that insurance is not a direct means of improving the quality of care. For African countries, one solution would be to develop insurance systems alongside plans to improve care quality.

Furthermore, the cases of Tanzania and India show that solidarity exists, but that it comes from a social pattern of mutual assistance that is still beyond the scope of micro-insurance developers. Communities must be able to take ownership of their insurance systems, whether they are private, public or hybrid. They must also know their rights. In India, Mexico and Africa, clarifying the different programmes should be a priority.

The examples of India and Mexico also show that overlapping public and private insurance programmes complicates both the range of care offered and, ultimately, the decision to seek care. Obviously, the African continent can learn from these examples. In all the countries studied, public insurance companies or mechanisms exist alongside private insurance. Local communities can only benefit from a more unified vision on healthcare financing policies. ■

2 • "People's Insurance" in English.

3 • A "partera" applies traditional knowledge to support women before, during and after childbirth.



Insurance via your mobile phone: development of distribution channels in Africa

By Frédéric Bouchet, Marketing manager, Gras Savoye

In Africa, insurance distribution relies on broking companies and insurance agents. The development of bank insurance is fraught with difficulty due to the persistently low penetration of bank accounts. New distribution networks are therefore central to insurers' development strategies across the continent. Mobile telephony is becoming a particular vehicle for the distribution of insurance products.

Taking out insurance is not standard practice in Africa. Continent-wide, people spend on average less than USD 70 a year on their insurance (as opposed to more than USD 2,700 in Western Europe). The reasons for this low take-up are as manifold as they are complex: lack of any real insurance culture, no compulsory insurance for mass risks, lack of innovation and regulations governing the pricing of insurance products, not to mention the sometimes random claims settlement process, which gives insurance a bad image.

In Africa, as elsewhere, the distribution of insurance is reliant on local or international brokers, insurers' exclusive agents or banks. It is also provided in a manner more tailored to the context via mobile operators, travel agencies and micro-finance institutions. The performance of these new distribution channels is closely linked to the African context: low penetration of bank accounts, high penetration of mobile operators, heavy presence of micro-insurance, etc. By replicating the number of positive experiences, keeping administrative constraints to a minimum and facilitating payment methods, these may all contribute towards raising people's awareness of insurance.

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THE "TRADITIONAL" NETWORKS ARE STRUGGLING TO EXPAND THEIR CUSTOMER BASE

The traditional network is still the leading player in terms of insurance distribution. In countries within the CIMA¹ zone, it represents 60% of insurance companies' turnover, all classes combined. Most of the business is generated by major international brokers focused on major

business risks and by local brokers dealing primarily with vehicle insurance. But local broking covers only a limited section of the African population, since the majority of its customer base is urban. →

1. The Inter-African Conference on Insurance Markets (CIMA) is an inter-state organisation spanning sixteen member states.



“Faced with aggressive competition in their sector, mobile phone operators view insurance as a way to differentiate their product and as a source of additional revenue.”

The future of the traditional distribution network depends to a large extent on its capacity to integrate new technologies into its organisation to reach a broader customer base and reduce its running costs. It is also linked to the growth of the urban, young and educated middle class. Some of the major brokers that are well-established in Africa, specialists in so-called affinity distribution (“B2B2C”), also have a role to play in helping African players with a large customer base (financial institutions, mobile operators, etc.) incorporate suitable insurance and micro-insurance products into their service offer.

The lack of development in bank account penetration (less than 15% in the WAEMU zone) is also hindering the growth in bank insurance – compared to a highly developed distribution channel in Europe that enables insurance products to be distributed to bank customers. In the CIMA zone, this possibility only saw the light of day in 2004, when financial institutions, savings banks and post offices were authorised to distribute insurance products over the coun-

ter. Bank employees now have an extended portfolio of products and services designed for customers whose finances are known to them and with whose needs they are familiar. And so they might, for example, offer motor insurance to a customer taking out a bank loan in order to finance a vehicle. Allianz Senegal and the Côte d’Ivoire group SUNU generate a significant share of their life insurance business from customers of partner banks. There is still a long way to go in this sector continent-wide, given the low bank account penetration rate and lack of effective strategies.

Mobile phone operators, retailers and funeral directors represent 45% of micro-insurance product distribution in the region (McCord & Bies, 2015). Agents and brokers have a 28% market share, and the rest is held mainly by micro-finance institutions (figure ➔).

Mutual aid organised at a family level or within associations also competes with the traditional insurers’ offer. People often prefer Informal insurances, such as tontines, since they permit members of the same community to save without the administrative complexities involved with insurers. The very low growth in mutual funds, such as those that exist in Europe and in South Africa, is also hampering the development of insurance in Africa. The counter-example of Rwanda, in terms of mutual health funds (90% of the population), illustrates the potential of this option.

MOBILE TELEPHONY, A VEHICLE THAT BOOSTS DISTRIBUTION

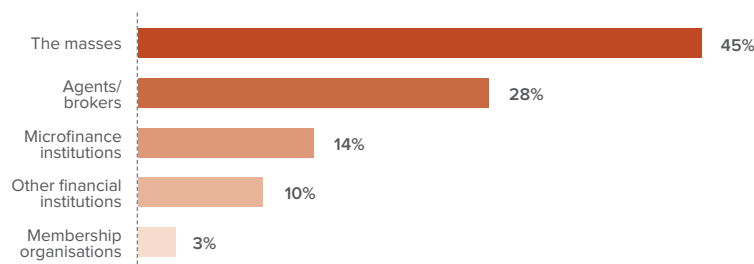
As major players in micro-insurance and constituting a burgeoning distribution channel, mobile phone operators are central to future distribution strategies. As a continent, Africa has become the second phone market after Asia, and with 160 operators, it is one of the most competitive markets in the world. The slowdown in growth on the continent and increased competition is prompting operators to taper their prices and develop networks in remote regions, but also

to develop new offers in an effort to preserve their market share.

Mobile phone operators reach more Africans than any other distribution channel. For the insurance market, this vehicle offers a number of advantages. Mobile banking, which facilitates money transfers, bill settlements and payments for products and services, relies on a vast network of agents, and this enables the completion of



⊕ Lives covered by distribution channel



Data for products for which a distribution network was indicated, representing 56 million people, i.e. more than 90% of the lives covered identified.

Source: Micro-insurance Network, 2015

administrative procedures that cannot be done by phone. This same network could be used for the sale of insurance products. Mobile banking makes it possible, easily and at low cost, to remotely collect and divide up small premium amounts into instalments tailored to micro-insurance. Claims payments can also be made this way, more simply and rapidly than in the traditional sector, enhancing consumer confidence. Furthermore, phone operators generally enjoy a better image than insurers and are key players because of their many communication tools (call centres, SMS, email, etc.) and their marketing muscle. Their network of agents means they also have an unrivalled presence in rural areas.

Faced with aggressive competition in their sector, mobile phone operators view insurance as a way to differentiate their product and as a source of additional revenue. By offering useful products (health insurance for example) to those customers who reach a minimum monthly level of consumption, they mitigate any subscription volatility and increase their revenue (two key indicators for the sector). Packages based on the Freemium model (the free-of-charge basic version coupled with paying options) enable operator to tap into a fresh income stream. Despite the still considerable constraints (the need for a written contract, limited technical solutions and high levels of user illiteracy which

reduces the effectiveness of communications via SMS, etc.), the distribution of insurance via mobile phones has a promising future. The phone sector would be well advised to seek the services of insurance specialists to design offers tailored to its customer base.

Sixty percent of Africans will still have no access to the mobile web in 2020, and yet the growth of e-commerce will come mainly through mobile phones. Recent insurance-centred initiatives include the announcement of the partnership between Axa and Jumia (a major e-commerce operator in Africa). Other similar initiatives will soon deliver.

In the African insurance sector, one of the most dynamic markets in the world, the future belongs to the players who know how to innovate effectively and seize the moment. Kenya's agricultural insurance product Takaful, launched in 2011, simultaneously uses satellite images to automatically detect drought areas (without insurance claim notification) and mobile banking technology to pay premiums and claims – all of this taking its inspiration from the Islamic cooperative insurance system in order to respect local religious beliefs. This innovative product is helping to embed the insurance culture on the continent. ■

FOCUS GRAS SAVOYE

Founded in Lille in 1907, Gras Savoye is an insurance and reinsurance broking group. A leading insurance broker in France, Gras Savoye deals with the entire risk process, from the provision of consultancy services to customers through to policy administration and claims handling – including policy negotiation with insurers. Gras Savoye forms part of the international consultancy, broking and software solutions group Willis Towers Watson, which has 39,000 employees in more than 120 countries.

 by **Pauline Angoso and Dalia Stanikaite Torija Zane**, *Coordinators of this issue and consultants with Proparco's Banking and Financial Markets division*

Everybody has to contend with life's hazards with all their attendant financial implications. For example, the death of the head of a family can deprive close relatives of an income. Insurance is designed to offer protection against these types of risks, however the sector is struggling to take off in Sub-Saharan Africa. Excluding South Africa – where the market penetration rate is 14% – the ratio of insurance premiums to GDP is barely 1% for the rest of the Continent.

The average African spends a mere USD 70 a year on insurance. Sub-Saharan Africans rely much more on family solidarity or traditional precautionary savings-type schemes such as tontines to make up for the shortcomings of the formal insurance offering. But such arrangements are not enough and a huge proportion of the population continues to be extremely vulnerable financially to the hazards of everyday life.

INSURANCE AS A GROWTH DRIVER?

Aside from its “protective” function, insurance can also make a major contribution to economic growth: there is a proven correlation between the insurance market penetration rate and growth in GDP. Insurance can increase the resilience of households and local economies to extreme events, channel household savings into the productive sector (by reinvesting premiums) and provide a boost for local stock exchanges.

As well as being essential for the good of both individuals and businesses, insurance can also be harnessed to UN Sustainable Development Goals (SDGs), such as improving food security (SDG 2). There are 430 million farms of less than two hectares in developing countries most of which have no private insurance nor any recourse to a public compensation fund in the event of a catastrophe. Until recently, such smallholders were considered to be uninsurable, i.e., the sums involved were too small and claims processing and marketing costs too high. However, the recent emergence of index-based insurance has been a game-changer.

Payouts under such arrangements are based on a pre-determined index (rainfall, livestock mortality, etc.) in the event of climate-related losses and / or catastrophes and there is no need for claims evaluation processes. This approach makes agricultural insurance affordable for smallholders in developing countries by eliminating loss adjustment expenses and reducing claims processing, distribution and transaction costs.

Developing healthcare insurance is also a means of furthering the goals of the international community (SDG 3): in Africa, between 60% and 70% of healthcare expenditure is borne by households. Consequently, a serious health problem or illness can result in “catastrophic” outlays: every year, 6% of the World's population fall into extreme poverty precisely for this reason.

Healthcare insurance can provide a safety net on condition that a quality healthcare offering can be guaranteed in order to convince the general population of its benefits, especially those working in the informal sector.

HOW DOES THE FUTURE LOOK FOR THE AFRICAN INSURANCE SECTOR?

Africa's demographic boom coupled with the emergence of a middle class with additional contribution capabilities would appear to auger well for a rapid growth in the demand for insurance – and notably life insurance – however such trends will not be enough on their own. To grow their African businesses, insurers must meet a number of challenges: developing suitably adapted products and marketing them via appropriate distribution channels (use of new

channels such as bancassurance and NICTs), meeting challenges related to HR management and the regulatory and control environment, and enhancing their ALM and investment strategies, etc.

Governments for their part will need to strengthen the regulatory framework, keep tabs on the quality of services being provided and guarantee legal and fiscal security for insurance market stakeholders. ■

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