

Emerging business models for inclusive insurance

African Inclusive Insurance

July 2022



MSMEs are a hard market to reach for insurers using traditional business models

A new approach is needed



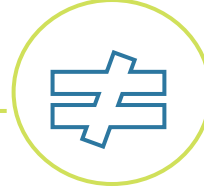
Lack of value proposition to MSMEs

Insurance products do not offer sufficient value to MSME customers, resulting in a lack of insurance culture



MSMEs are difficult to reach

High proportion of MSMEs are unbanked or inaccessible, which makes it difficult to reach this target market with products.



Lack of a homogenous risk pool

MSMEs differ vastly based on size, age, sector and a multiplicity of other factors



Lack of data

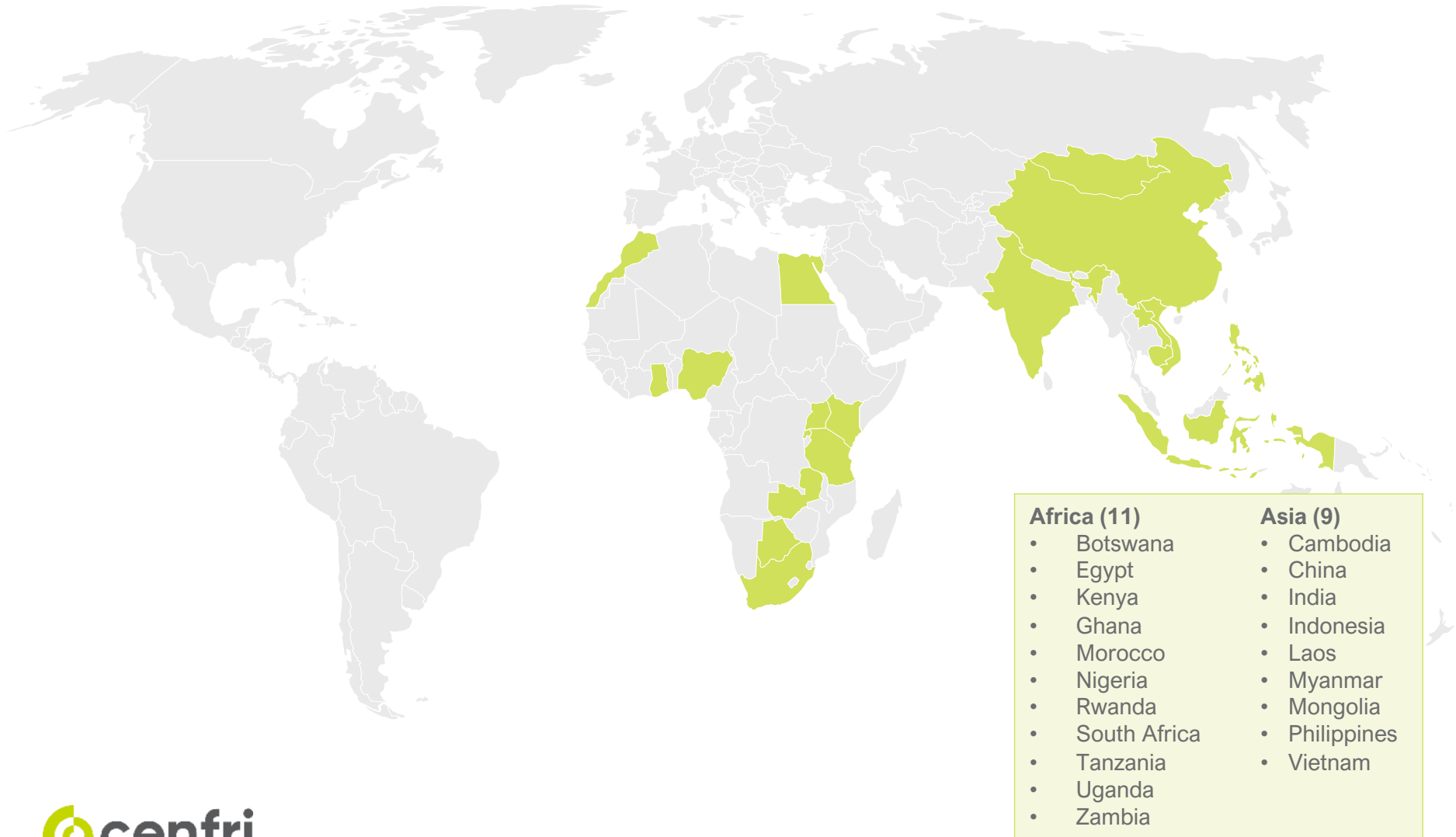
Limited data on MSMEs, which makes understanding the nature of risks faced and needs of MSMEs difficult

Value

Distribution

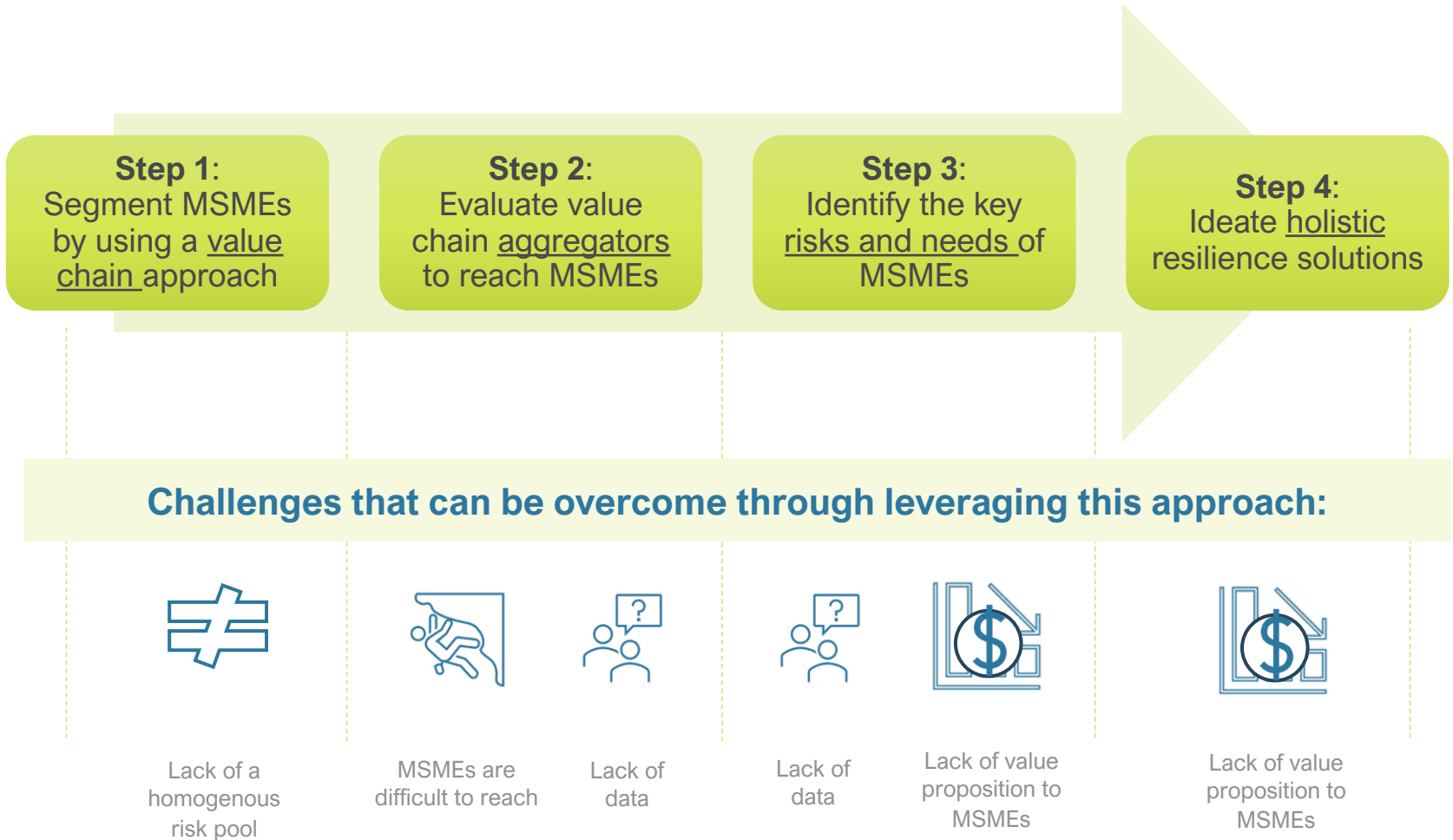
Heterogeneity of known and unknown risks

Widespread research conducted to identify potential solutions

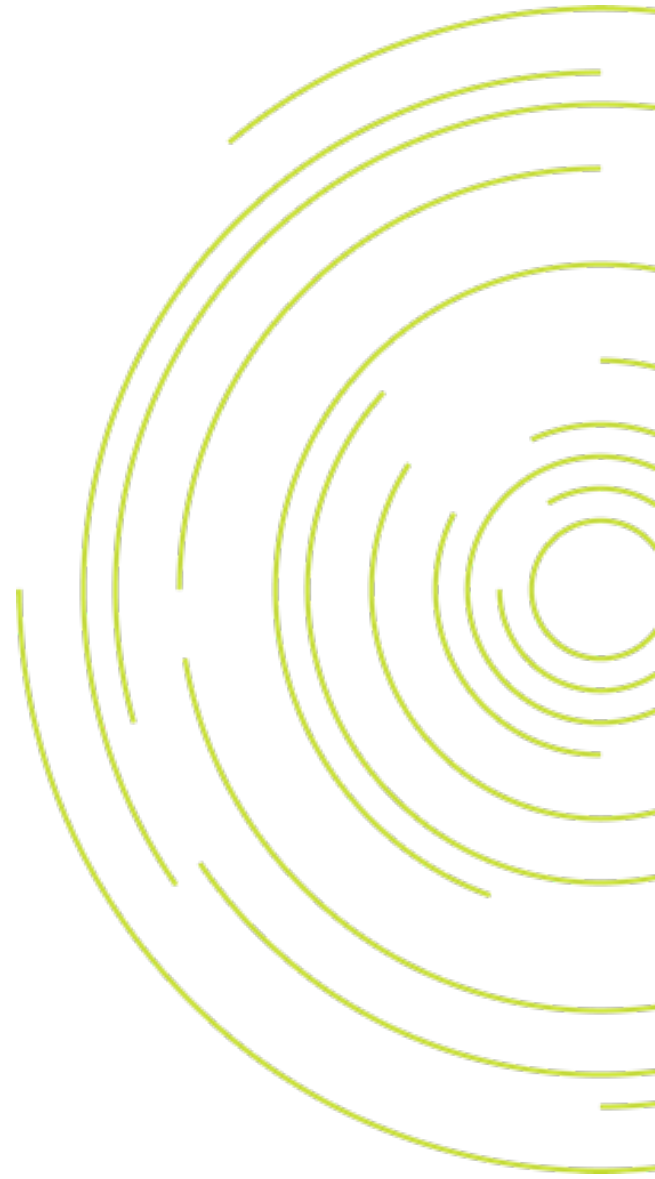


A value-driven approach to holistic and commercially viable insurance solutions

Delivering tangible value to MSMEs for both risk management & mitigation



Applying the approach and what we found



Step 1: VC identification (Egypt)

Step
1.1



Objective

Determine which sectors in a country notably contribute to the **economic development** and **welfare** of individuals and MSMEs, and would produce the **greatest economic dividends** from improved SME resilience



Criteria

- GDP and GDP growth
- Key source of employment, especially for women
- Notable proportion of MSMEs
- Key policy priority by the government

Selection of:

- Agriculture
 - Manufacturing
 - Wholesale & Retail Trade
 - Construction
 - Transportation & Storage
- as the **priority sectors**.

Step
1.2



Objective

Determine which **MSME segments** within the most promising economic sectors show the **most potential for a holistic resilience solution**



Criteria

- Sufficient amount of aspirational enterprises
- Degree of homogeneity among MSMEs in terms of their operations and risks
- Contribution to employment, especially female employment
- Structure of the value chain and presence of aggregation points

Selection of:

- Retail value chain
 - Dairy value chain
 - Tomato value chain
- as the **most promising value chains** within the priority sectors

Which value chains show the most promise?

Retail, agriculture and transport/ logistics are key MSME sectors

Morocco

Agriculture:

- Key priority – contributes to food security, growth & trade (exports rose by +38% (2014-2019))
- Created more than 83,000 jobs

Transport/logistics:

- Cars made up 15% of exports in 2018
- In 2019, the industry comprised +250 companies, creating +222,000 jobs with 60% local integration rate

Zambia

Agriculture: 70% of MSMEs

- Contributes ~7% to GDP and +28% to total employment
- Maize, Sunflower and groundnuts contribute most to livelihoods (+ 1.1 million households growing)

Retail: 21% of MSMEs

- Contributes 22% to GDP and 24% to employment
- Priority sector by government



Egypt

Retail: 57% of MSMEs (1.85 million)

- 30% to employment and 14% to GDP
- Homogenous in their activities
- Suitable aggregation points

Agriculture: 21% to employment and 11.3% to GDP –dominated by smallholder farmers (e.g., +600,000 smallholder dairy farmers)

Uganda

Agriculture: 7.4 million farmers (80% of MSMEs)

- Relatively homogenous
- Contributes ~25% to GDP and +70% to total employment

Logistics: Sector small (5% of MSMEs)

- Employs 2.4% of all employed persons
- Enables operation of other value chains

Step 2: Aggregator evaluation



Lenders

Lenders offer access to existing loan customers and established platforms and payment channels can be leveraged. Credit and insurance products are also mutually supporting.



Value chain aggregators

Value chains and their associated networks can offer insights into points of entry and aggregation for MSMEs.



Digital platforms / apps

Digital platforms also offer access to customers and their infrastructure, systems and existing payment channels can be leveraged.



Payment service providers

Linking solutions payments to an account will ease premium payments

Usually have existing relationships with FSPs to offer financial services such as microfinance and insurance



Step 3: Identifying consumer risks and needs

Cash management and climate risks rank are top of mind for MSMEs in Egypt



Retail value chain



Dairy value chain



Tomato value chain

Cash-flow challenges [purchase goods within budget, sell assets, delay purchase]

Importance of the challenge



Shoplifting [increased staff presence, surveillance cameras]



High temperatures [bath the cattle, take cattle out at night]



Pest and diseases [insecticides, crop rotation]



Expired or Damaged Goods [inspection, return of goods]



Milk Storage [boiling milk, sell or give to relatives]



Price fluctuations [contract farming, sell at lower price]



Fire [fire extinguishers, fire bells, insurance]



Animal Diseases [isolation, medication]



Weather and temperature changes [keep up-to-date with weather changes]



Missing goods from packing for customers [replace missing goods]





Price fluctuations [increased volume sales in winter]



Fertilizer availability and prices [limited use, animal manure]

Step 4: Linking solutions to risks

Sampled MSMEs have an appetite for bundled solutions (VAS + insurance)

	Challenge	Possible solution proposed	Effectiveness
	Uganda Pest and disease outbreaks	Pest and disease identification app allowing farmers to identify and manage crop pests/diseases	49% of farmers scored this solution 4/4
	Egypt Animal diseases	Veterinary solution and cow sensor as an add-on, bundled with livestock death insurance or veterinary insurance cover	Top 1 product bundle among dairy farmers
	Uganda Lack inventory and employee management tools	Employee health (hospital cash and telemedicine) insurance, bundled with access to tools that digitalise inventory and/or employee tracking systems	43% of retail MSMEs scored this solution 4/4
	Egypt Theft	Installation of basic anti-shoplifting technology bundled with theft coverage	Top 1 product bundle among retail MSMEs

Source: Allen et.al., forthcoming (2022); Beyers et al., [\(2021\)](#)

Partnerships with both aggregators and VAS providers required to unlock tangible value for MSMEs

Technology offers opportunities for proactive risk management and prevention, and can also facilitate distribution

202 insurtechs identified in Africa

Telematics and IoT

 | TELEMATICS



Tech enabled partnership



Demand-based

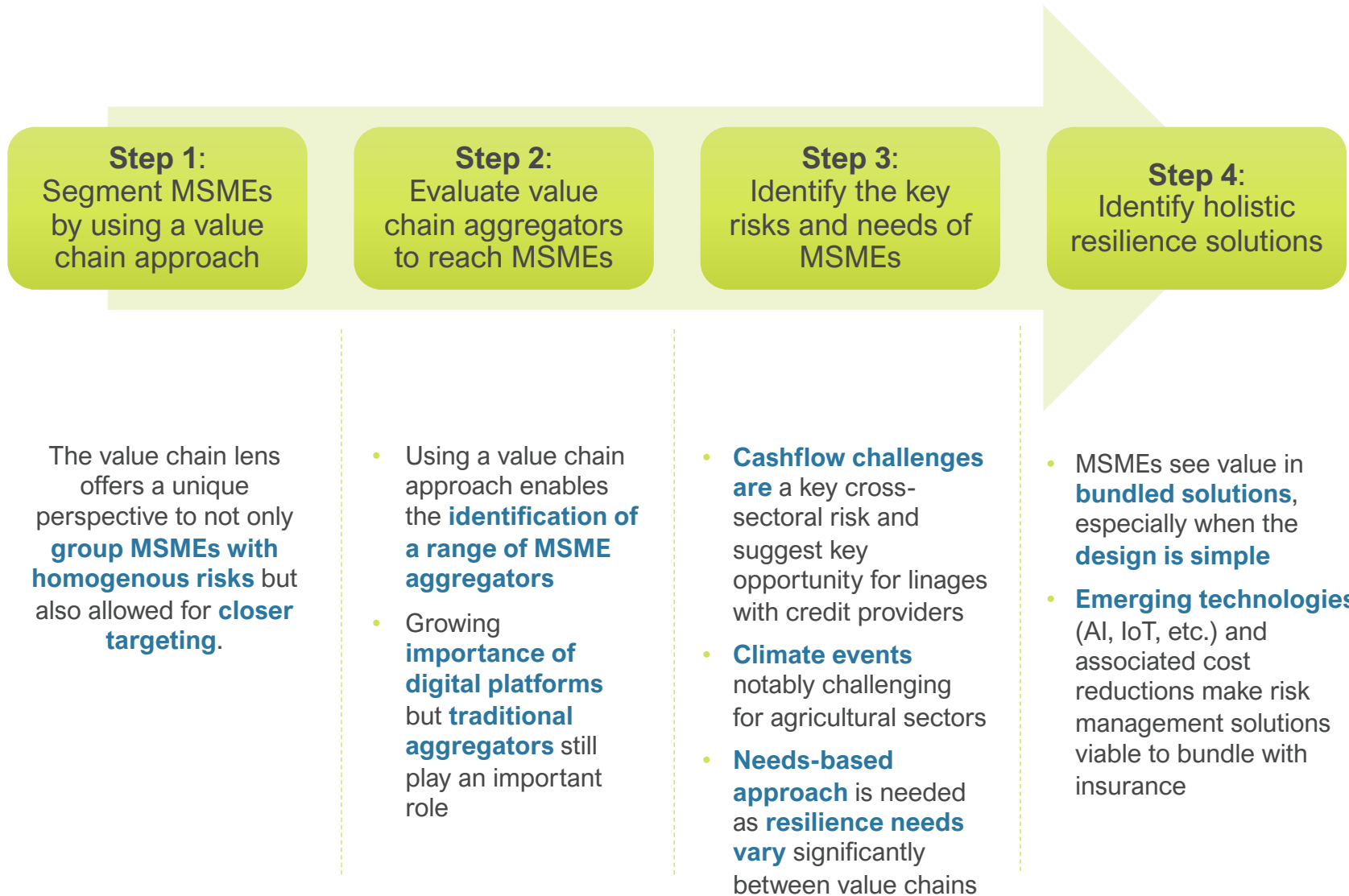


Parametric



Opportunities for MSMEs

Bringing it all together



An effective collaboration between ecosystem players needed



Insurance providers: Become risk management partners to more effectively capture the MSME market



Technology providers: Seize opportunities to partner with insurance providers to improve engagement with their own customers base and to attract new customer segments



Policy makers: Set the tone for supporting innovation and through supporting the coordination of value chains



Regulators: Create an enabling environment for innovation by having a flexible and accommodative approach to promote responsible innovation and respond to innovative developments



Development partners: De-risk investment and promote a rethinking of insurance through consumer and market research and co-funding support

Thank you

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About Cenfri

Cenfri is a global think-tank and non-profit enterprise that bridges the gap between insights and impact in the financial sector. Cenfri's people are driven by a vision of a world where all people live their financial lives optimally to enhance welfare and grow the economy. Its core focus is on generating insights that can inform policymakers, market players and donors who seek to unlock development outcomes through inclusive financial services and the financial sector more broadly.

