MCom

Un(der)served: Factors influencing microinsurance penetration in Zambia

A Dissertation

presented to

The **Development Finance Centre (DEFIC)**
Graduate School of Business
University of Cape Town

In partial fulfilment
of the requirements for the Degree of
Master of Commerce in Development Finance

by

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February, 2022

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ACKNOWLEDGEMENTS

This journey has been long, full of lessons but I am eternally grateful to God for his infinite wisdom and grace for seeing me to the end.

I would like to extend my gratitude to the following people who in different ways helped me get through the research process.
My husband for always being there to listen, for being patient and for his constant motivation and encouragement from day one.
My mother, sisters, brothers, not forgetting my aunties aka “Lusaka mothers” & Aunty Special for all the times you had to step in to take care of the boys.
My two boys who in their own different ways reminded me why I needed to finish, Tumi, for staying up with me and reminding me when it was time to go to bed, Nju for constantly checking up on me and being understanding when I needed to work.
My supervisor, Associate Professor Abdul Latif Alhassan, for your insights and guidance throughout this process.
Ms Candice Marais from UCT GSB for all the administrative support provided.
My friends and colleagues, thank you for indulging, encouraging and giving me words of wisdom everytime I thought the balancing act was proving too difficult.
The MCom 2020 class, we went through school during a different global period that involved a lot of adjustments, thank you for being a dependable support system.
To all the respondents who partook in this research, your valuable insights made the research possible.

Lastly, to my late father, you always wanted me to do a masters degree, this one is for you. Thank you for everything you have taught me. Your legacy lives on.

God Bless.

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ABSTRACT

The low-income population continue to be un(der)served when it comes to provision of formal insurance services in Zambia. This is despite the informal sector forming a significant pool of at least 63.5 percent of the total workforce (ZSA, 2020) and microinsurance development attracting widespread interest from local and international organisations. To understand the factors influencing microinsurance penetration in Zambia, using a tailored conceptual framework, this research employs a purposive random sampling and semi-structured interviews to collect data from fourteen (14) participants from the supply-side comprising insurance companies, InsurTech organisations, and non-distribution providers with fifteen (15) consumers for the demand-side. A thematic analysis framework was used to analyse the data.

The findings reveal that while some factors have positively influenced microinsurance penetration; others have negatively influenced it. On the supply side, using partnerships and enhancing technology supports distribution. Applying the Ansoff Growth Theory, the study finds that insurance service providers adopt diversification and product development strategies that are unique to microinsurance. Some factors have negatively influenced microinsurance penetration. On the supply side, a lack of historical information has resulted in issues with information asymmetry while the low claims ratio is attributed to the infancy of the microinsurance market. In addition, the cash nature of the industry has caused premium collection challenges leading to high lapse rates.

On the demand side the poor insurance knowledge, macroeconomic indicators such as inflation, effects of COVID – 19 resulting in loss of income, lack of understanding of product benefits, low levels of trust of insurance providers have negatively influenced microinsurance penetration the demand-side. Lastly, the findings around consumers' attitudes to risk were inconclusive, with moral hazard not widespread. The study recommends that insurance providers strengthen mutually beneficial partnerships and collectively enhance insurance awareness. The government needs to facilitate hard and soft infrastructure in many rural areas for better accessibility. The Technical Advisory Group for Microinsurance (TAG) should coordinate the creation of a centralised database that can be used to store customer details to manage information asymmetry.

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GLOSSARY OF TERMS

EUT	Expected Utility Theory
FSDZ	Financial sector deepening Zambia
GDP	Gross domestic product
GWP	Gross written premium
IA	Information asymmetry
ILO	International Labour Organisation
ISP	Insurance service provider
MFI	Microfinance Institutions
MNO	Mobile network operator
NDP	Non-distributor Provider
NFP	Not for profit
NGO	Non-governmental organisation
PIA	Pensions and insurance authority
PT	Prospect Theory
PWC	Price Waterhouse Coopers
RUFEP	Rural Finance Expansion Project
SACCO	Saving and Credit Co-operative Society
SDG	Sustainable Development Goals

SRM	Social risk management
TAG	Technical advisory group for microinsurance
UCT	University of Cape Town
USD	United States Dollar
WB	World Bank
WDR	World Development Report
ZSIC	Zambia State Insurance Corporation

CHAPTER ONE

Introduction

1.1 Background to the study

Managing risk has been used since time immemorial as a critical element in protecting assets, whether human life or property and is applied differently across households. One standard tool often used in risk management is insurance. Insurance as a risk management tool plays an important role at the household and national level making it paramount that people have access to it regardless of status. However, insurance penetration rates continue to be low for many countries, most of which record single-digit insurance penetration rates for years on end. In Africa, for instance, the only country with double-digit and highest penetration as of the end of 2019 is South Africa (12.5 per cent) (PWC, 2020). The discussion on the low penetration rates has been ongoing for years. In some quarters, it has been argued that the low insurance penetration in many African countries could result from the informal sector remaining largely un(der)insured, compounded by high poverty levels, thereby creating challenges in accessing the service. To illustrate this point, a study by the International Labour Organisation (ILO) found that out of the one billion people living in Africa, an estimated 60% live below USD2 per day and are vulnerable to risks such as illness, death, natural disasters, damage to property and accidents, which would ultimately negatively affect their livelihoods. (Matul, Mccord, Phily, & Harms, 2009).

Focusing on risk management tools across the population allows African countries to drive economic growth and strategies to reduce poverty[1], one of the Sustainable Development Goals (SDGs). The strategy allows low-income households to pursue an entrepreneurial approach to raise incomes. Over the years the focus has shifted with the debate about ending poverty now extended to providing sustainable tools that enable building and sustaining resilience in income generation. As cited by Magazi (2019), 'inclusive' and sustainable growth is being driven as a policy goal by governments to allow access to all financial services [2] for everyone, including those in the low-income market.

[1] Reducing poverty is the United Nations Sustainable Development Goals (SDG) Number one

[2] Zambia has a Financial Inclusion Policy 2018 – 2023 that provides policy direction and guidance to players in the financial services industry. It is supported by Bank of Zambia, Pensions and Insurance Authority and the Securities and Exchange Commission.

With the need for risk management tools for the informal sector, innovative and cost-effective solutions to manage risk while simultaneously driving financial inclusion will need to be created for Africa to grow the insurance market. One potential growth risk mitigation channel that continues to generate interest for the low-income market in Africa is microinsurance.[3] Microinsurance uses the same principles as traditional insurance and allows the low-income population access to formal risk tools that they can be used during unexpected occurrences (Madrid, 2014). The solution provides peace of mind, while allowing them to continue using their income on poverty reducing strategies for their households (ibid).

The focus on microinsurance has spread across many low-income countries in other parts of the world with the total annual premium and volume contribution from microinsurance increasing over the years. Microinsurance coverage[4] in 2016 was estimated to be highest in Latin America at 8.55 per cent, 4.36 per cent in Asia and Oceania and 5.77 per cent in Africa in 2017. In Africa, South Africa dominates the microinsurance market with a coverage of 63.99% (Akomea et al., 2021)

Historically, microinsurance began to rise in Africa in the early 2000s when development advocates led by the World Bank became increasingly aware of the importance of effective risk management as a supportive mechanism for economic growth. (Morelli, E as cited in Hintz M, 2010). The 2000/2001 World Development Report became the epitome of expanding the microinsurance development agenda. Consequently, interest in microinsurance as a market-based solution to Social Risk Management increased, and respective donor funding became available. Not surprisingly, microinsurance implementations have risen across many developing countries in Asia and Africa (Hintz, 2010). And one of the countries where microinsurance is gaining prominence is Zambia.

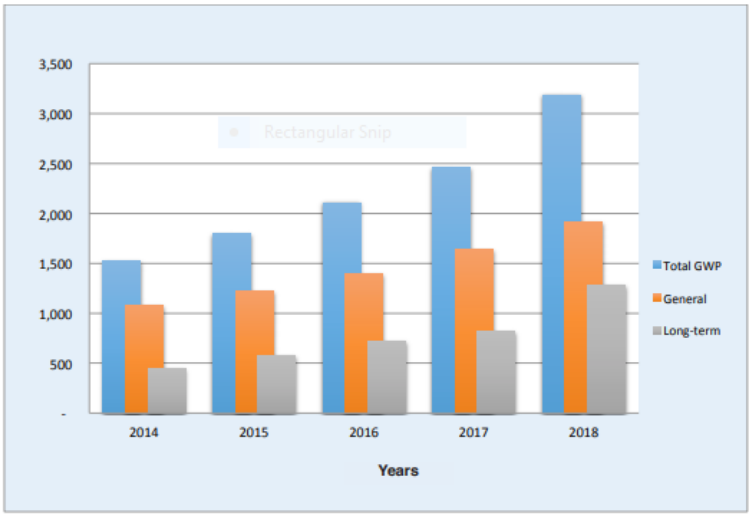
1.2 Problem definition

With the background shared in the introduction, we begin our problem statement by first looking at the gross written premium (GWP) across the Zambian Life and General insurance industry. As shown in Figure 1 below, GWP has been steadily rising over the years. The figure also shows that general insurance premiums have consistently been performing better than life

[3] The International Association of Insurance Supervisors (IAIS) defines microinsurance as insurance for low-income people provided by a variety of institutions, run in accordance with generally accepted Insurance Core Principles, and funded by premiums proportionate to the likelihood and cost of the risk involved (Dror, 2014)
[4] Microinsurance coverage is measured in terms of lives covered as a percentage of the total population

insurance premiums. This could be attributed to the law that requires all motor vehicles on Zambian roads to be insured, thereby creating demand among motor vehicle owners. On the life insurance side, credit life insurance is often automatically bundled with a loan purchased from any financial institution. It is one of the commonly adopted products in the industry.

Figure 1: Total gross written premiums in the insurance industry in Zambia



Source: Pensions Insurance Authority Annual Report, 2019.

Despite the insurance industry seeing growth in GWP over the years, there remains a high concentration of volume and premiums in the formal market with little or no contribution from the informal market, evidenced by the lack of mention of microinsurance in most of the Pensions and Insurance Authority (PIA) annual reports over the years.

Interestingly the concept of insurance in Zambia is not a new one in the low-income market. Some people in the informal sector continue to use out-of-pocket means of supporting emergencies when catastrophe strikes, funds they should be using to drive income-generating activities aimed at raising themselves out of poverty. According to the 2020 Labour Force Survey report, of the employed population in Zambia, 63.5 per cent work in the informal economy, of which 77.3 per cent work in the rural areas. The leading industry in the informal sector continues to be agriculture, forestry and fishing, and housing employing 83.6 percent of the population (ZSA, 2021).

As highlighted in the 2020 Zambia Finscope Study, usage of formal insurance services across the country increased from 2.5 per cent in 2015 to 5 per cent in 2020, with only 4.9 per cent of the people interviewed not struggling to pay for unexpected expenses, 10.8 per cent of the

respondents were able to save enough to cope with unforeseen expenses. This trend existed in Uganda, where a Finscope Study revealed that less than one per cent of Ugandans avail themselves of traditional formal insurance services, with informal insurance tools used up to 43 per cent in rural areas. (Finscope, 2020).

Zambia's low formal insurance usage thus raises questions about risk management and economic exposure across the population. More needs to be done to ensure that people can engage with the formal insurance industry. Over the last few years, formal insurance providers have been adopting various distribution models while offering different products and services. The population in the low-income market have slowly started responding to the solutions being provided despite still channelling their income earmarked for productive uses to emergencies. Therefore, several factors continue to influence how microinsurance is perceived and used by consumers in the low-income market.

1.3 Research questions and objectives

Following the definition of the problem, the paper, therefore, seeks to understand how formal insurance tools, particularly microinsurance, can influence insurance growth among the low-income population. To better understand the market, the study seeks to answer the following research questions.

1. What are the demand-side factors that influence microinsurance penetration in Zambia?
2. What are the supply-side factors that influence microinsurance penetration in Zambia?

In attempting to answer the research questions, the research objectives are outlined below:

1. To identify the demand-side factors that influence microinsurance penetration in Zambia
2. To identify the supply-side factors that influence microinsurance penetration in Zambia.

1.4 Scope and justification of the study

Knowledge of the factors influencing microinsurance penetration will be useful to the entire insurance industry, especially as microinsurance continues to be one of the tools perceived to drive financial inclusion by promoting risk management interventions for the low-income population. Furthermore, as the study looks at both the demand and supply side, it will help organisations that provide the services explore the appropriateness and efficiency of distribution methods, products, and pricing. It will also give them a view of experiences and perceptions from consumers enjoying the solutions or who should be enjoying the solutions to get a first-hand view of what they would like to see.

The study would also be helpful for individual and member-based consumer groups as it will give them a view of the challenges faced by providers and other consumers. It will support efforts to drive efficiency and recognition by their members for increased uptake. Furthermore, it is well known that microinsurance is still in its infancy in Zambia. Therefore, both demand and supply would value using the study's findings to learn about best practices and identify mistakes from interventions elsewhere, as shared in literature to use the study to enhance financial inclusion in the low-income segment further. These interventions could contribute to the attainment of various SDGs in Zambia, particularly, SDG 1 – reducing poverty; SDG 10 – reducing inequalities; and SDG 8 – decent work and economic growth.[5]This can be done by driving formal risk management tools relevant and valuable to the informal market.

For policymakers, the study will give perspective on the factors influencing microinsurance penetration and help support initiatives and strategies that will result in many more Zambians accessing affordable insurance. Lastly, the study will add to the existing knowledge on microinsurance access and penetration in Zambia and Africa in general.

1.5 Organisation of the study

Chapter One includes the introduction, research problem and questions, research objectives, justification of research, and research organisation. Chapter Two details the literature review, including a review of relevant theories, empirical literature review, factors influencing access to insurance, and assess gaps in the literature.

Chapter Three will describe the methodology adopted for the research. The fourth chapter will discuss the study's findings. Finally, the fifth and final chapter will provide study conclusions, recommendations, and proposed focus areas for future research.

[5] For a detailed view of the eighteen Sustainable Development Goals, please refer to Appendix 2.

CHAPTER TWO

Literature Review

2.1 Introduction

This chapter aims to synthesise the theoretical and empirical research around the factors that influence microinsurance penetration from a demand and supply perspective. First, the chapter provides a historical view of the insurance industry and the origins of microinsurance in Zambia. The chapter then outlines the concepts and theoretical elements of the research problem. Insights from empirical literature follow it before concluding with a summary of the chapter.

2.2 Definition of Concepts

This section will define some of the key concepts that are used in the research.

i) Microinsurance: "provision of insurance services to [individuals or firms in the lower income bracket" (Liber, McCord & Roth, 2007, p. 1).

ii) Insurance penetration: the percentage of the gross written premium(GWP) against the Gross Domestic Product(GDP)

iii) Demand side factors: in this study demand side factors are factors which influence insurance consumers

iv) Exogenous factors; factors outside the control of both supply and demand side players but have an impact on their operations.

v) Supply side factors; factors affecting insurance service providers at underwriter, support and distributor level.

2.3 Insurance industry in Zambia

After Zambia attained independence in 1964, various state-owned institutions across many sectors were created. One of the institutions was the Zambia State Insurance Corporation (ZSIC), whose responsibility was to provide general and life insurance solutions at individual and corporate levels. In 1991, after Zambia became a multi-party democracy, capitalism was adopted. This resulted in the Zambian market becoming liberalised in 1992 and privatisation of state enterprises introduced. Liberalisation brought competition, and the number of players

in the insurance market increased. The Pensions and Insurance Authority (PIA) was set up and established as a body corporate to regulate all insurance and pensions business following the Pension Scheme Regulation Act No. 28 of **1996** (PIA n.d). By 1997, the Insurance Act was entirely in effect. In 2005, the law was amended to split all insurance companies providing composite insurance. In 2021, further changes to the Insurance Act had provided for an additional class of business – microinsurance – to be included as a standalone product just like general and life insurance. Microinsurance can be offered by any registered life or general insurance company as a class of business. It can now also be provided on a standalone basis with different capital requirements. Table 1 gives a view of the regulated insurance entities up to 2018.

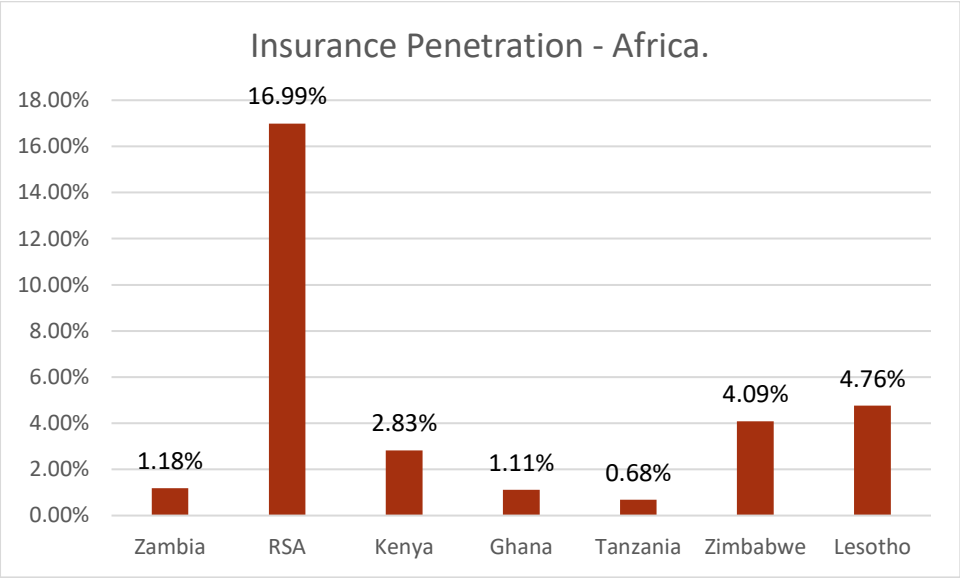
Table 1: Number of insurance regulated entities. 2015 - 2018

Categories	**2018**	**2017**	**2016**	**2015**
Reinsurers	3	4	4	3
General insurers	21	22	22	22
Long term insurers	10	13	12	12
Insurance brokers	37	41	50	44
Reinsurance brokers	4	2	2	2
Insurance agents	237	250	240	237
Loss adjustors	5	6	8	8
Risk surveyors	2	4	1	1
Assessors	8	10	11	9
Claims agents	6	8	11	6
Total	**333**	**360**	**361**	**344**

Source: Pensions Annual Report, (2019)

Despite Zambia seeing more players coming into the sector, insurance penetration generally remains low compared to other countries. The paper highlights several other African countries overall penetration rates as of 2019, in Figure 2 below.

Figure 2: Selected African countries insurance penetration rate



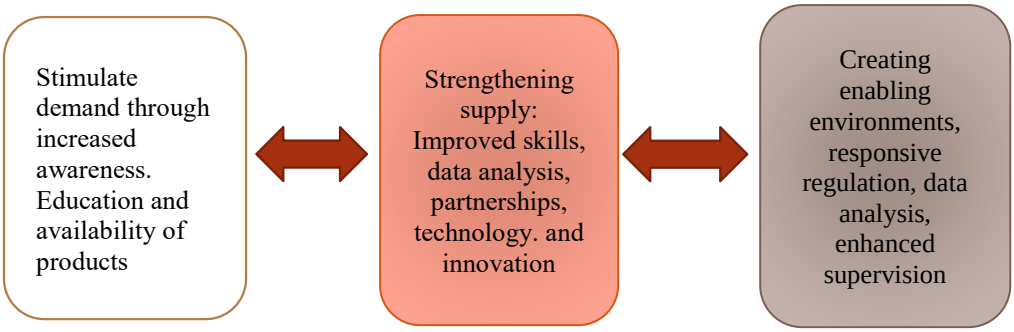
Source: Price Waterhouse Coopers Report (2019)

- **2.3.1 Evolution of microinsurance in Zambia**

Microinsurance in Zambia was introduced after a study was conducted by the International Labour Organization's Microinsurance Innovation Facility in association with other stakeholders in 2009. (Matul, McCord, Phily & Harms 2009). The study revealed that the lower end of the market had limited access to formal services and was un(der) insured. Since then, service providers and donors have been hard at work creating opportunities to strengthen market development at regulatory, organisational, and consumer levels. Supported with technical and financial assistance from donor-funded organisations, some registered life and general insurance companies, had by 2016, attempted to build business cases and develop voluntary and compulsory microinsurance products. (FSD, 2016) While there is limited information about the players (not publicly available), some providers may still be offering microinsurance, with others falling off; while new entrants may have joined. On average, it is estimated that about ten companies are offering microinsurance products.

The significant historical support for microinsurance market development has come through creating the Technical Advisory Group for Microinsurance. The TAG was created as a working group supported by the insurance regulator, insurance providers, and non-governmental organisations like FSD, to provide access to microinsurance and improve the quality of insurance offered for low-income market segments in Zambia. It has since evolved into a key organisation with a board of directors and staff managing day-to-day operations (FSD, 2016). It is driven by three primary objectives outlined in Figure 2.

Figure 3: Objectives of the TAG



Source: Microinsurance TAG's profile.

Traditionally insurance in Zambia is distributed mainly through insurance-owned registered tied [6]agencies offering either life or general products and brokers who can offer both classes. However, microinsurance products are increasingly being provided through non-traditional players entering the market at different value chain stages to support distribution, product development, and premium collection.

2.4 Theoretical framework

The theoretical framework that the research has adopted reviews several theories that may explain the demand and supply of microinsurance. The Asymmetric information theory will explain factors on both the demand- and supply-sides. While the Ansoff Growth Model specifically review factors on the supply-side. The Utility and Prospect Theory reviews theoretical findings on the demand-side.

- **2.4.1 Asymmetric information theory**

The doctrine of utmost good faith applies in all forms of insurance contracts. Utmost good faith allows both parties to disclose all material facts (IMS proschool, n.d). When this does not happen, it leads to information asymmetry. The principle of asymmetric information, either on consumers or producers, could influence the decisions and strategies applied for microinsurance. For some, information asymmetry (IA) and search costs might render insurance on some risks too expensive, therefore on the supply-side, the provider will act as if those risks were uninsurable. Uninsurable risks affect the insurers' overall risk exposure;

[6] Tied agencies are contracted by an insurance provider and licensed by the Pensions and Insurance Authority (PIA) to only sell a particular company's insurance products in exchange for commission. Agencies can either be an individual or a registered company.

therefore, those risks may ultimately impact the decisions concerning what is insurable (Jeleva, 2000).

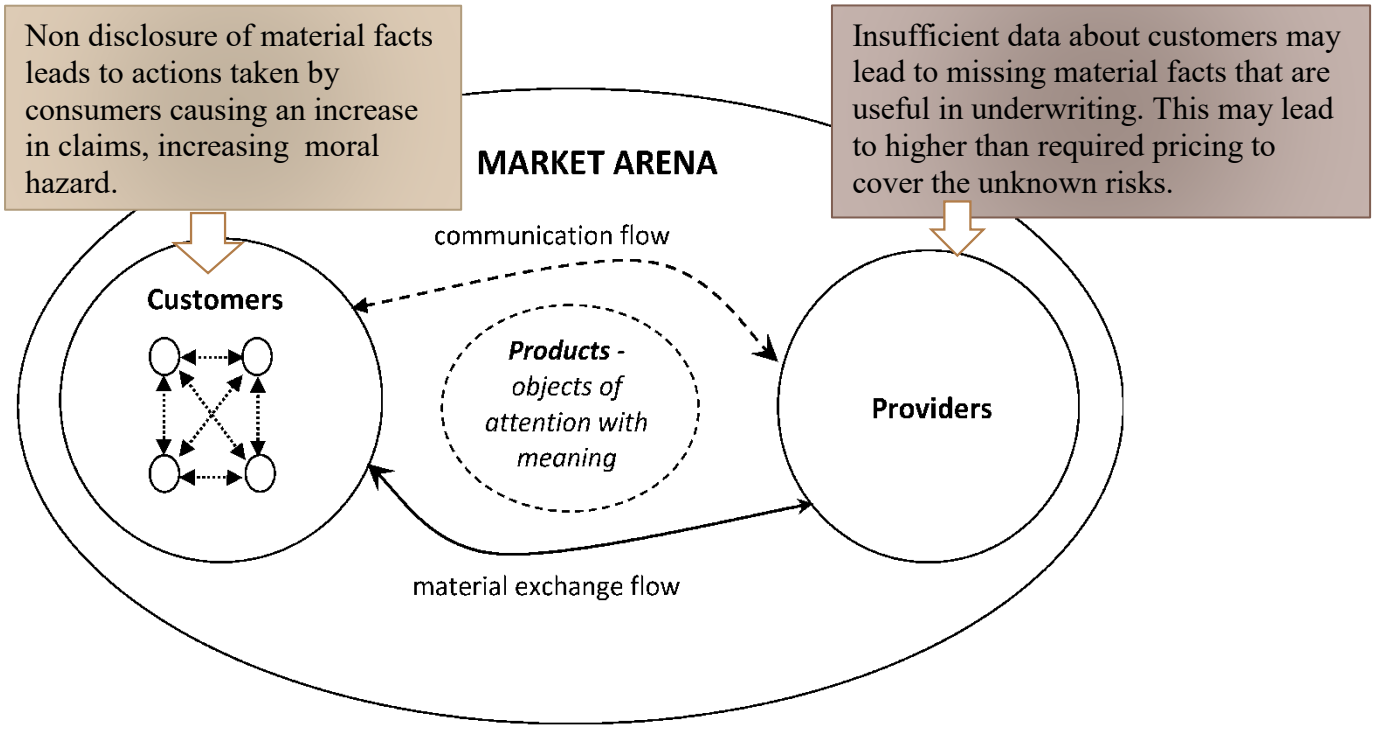
Information asymmetry (IA) breeds suspicion and mistrust on both sides, therefore creating a problem. In some cases, it may result in the incompleteness of contracts in the insurance market. On the demand side, the effects of IA are usually seen post finalisation of the insurance cover with the provider. This is because material information concealed tends to be acted upon by the customer without the provider knowing. In contrast, anti-selection may be prevalent on the supply-side where the provider puts in measures to cover additional risk due to not accessing some information, e.g., an increase in premium to account for the non-availability of some information (Shettima, 2019).

If not well managed, IA can cause higher than required premiums set by the providers to cover unforeseen risks. In addition, it may lead to higher incidences of fraud and more inflated claims by consumers; both actions negatively affect smooth operations of the insurance market (Cawley & Tomas, 1999). In microinsurance, emphasis is usually made to make products straightforward to avoid confusing households with technical information that is difficult to understand. In many cases, providers offer only particular types of products in the microinsurance market, looking at the market's constraints.

As outlined in Figure 3, information asymmetries are even more prevalent in microfinance, making communication difficult. This eventually allows for the breeding of information asymmetry leading financial institutions to struggle to get the information required for proper decision making (Frankiewicz & Churchill, 2011)

Some of the distribution challenges that give rise to IA could result from low technical sales skills. Most providers use commission-based tied agents and brokers who may not be fully trained in insurance products, increasing communication challenges. The miscommunication challenge could be worse in the microinsurance industry as alternative distribution models are used, i.e. aggregators who may only rely on the training provided by the service provider to understand insurance terms. (De Bock & Gelade, 2017).

Figure 3 : Information Asymmetry Theory



Source: Shettima(2019)

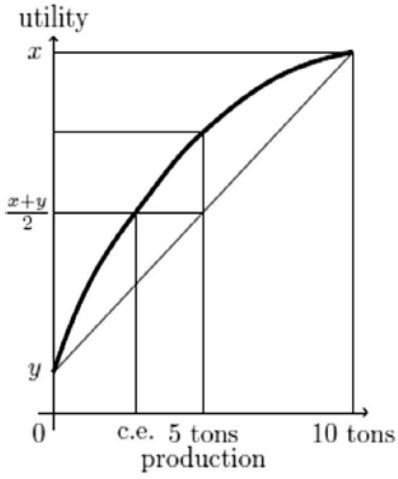
- **2.4.2 Expected Utility Theory and Prospect Theory**

Despite the low-income market facing more risks and vulnerability, it has generally experienced low insurance demand. Understanding how consumers view risk can be explained using some form of behavioural economics. While many theories explain some behaviour, this study focuses primarily on two of them relating them to insurance. Von Neumann and Morgenstern (1944) advanced the Expected Utility Theory (EUT), while Kahneman and Tversky developed the Prospect Theory (PT).

According to the EUT, a consumer would try to maximise their utility when deciding whether to purchase an insurance product as it gives them peace of mind. This allows a concave curve for gains, i.e. greater consumption leads to more utility, with each additional increase leading to a small increase in utility. This concavity gives a distinctive attribute of the utility function that gives rise to risk aversion (Platteau et al., 2017); (Gelade, 2016). Therefore, marketing techniques focusing on EUT would include statements such as *to provide peace of mind, buy*

insurance in an emergency and so on (ibid). Figure 4 provides context on the concavity explained by EUT.

Figure 4: Expected Utility Theory



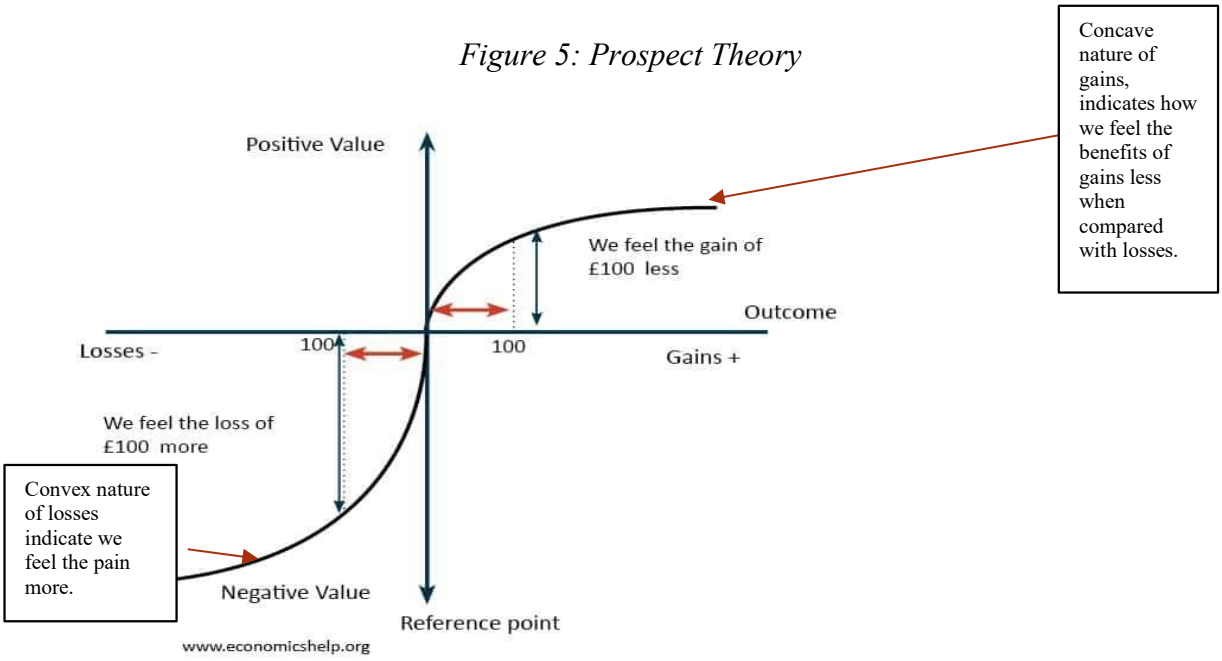
(a) Utility function

Source: Platteau, et al.(2017)

Consumers, however, might base their decision to purchase insurance based on the principles of the Prospect Theory (PT) and influenced by loss aversion. The theory assumes that consumers feel the pain of a loss more than the pleasure of a gain for the same amount (Platteau et al.,2017). When insurance is being marketed using the principles of PT, language such as '*do not lose your property, buy insurance to be covered in case of emergencies'* would be used (Gelade, 2016). Prospect Theory assumes that the utility function would be convex for losses, implying risk-seeking behaviour. At the same time, it would be concave for gains (Platteau et al. (2017), as illustrated in Figure 5.

The assumption of the Prospect Theory puts much weight on insurance being valuable because the worst events may happen. Further, the probability distribution places weights against the worst possible outcome and not the benefits, as explained by the expected utility theory (Platteau et al., 2017). As insurance covers loss, explaining it in that form would make sense. If the overweighing of worst outcomes is a vital element of purchasing insurance, it would explain why certain products are in low demand (Wakker et al., 1997 as cited in Gelade, 2016).

Figure 5: Prospect Theory



Source: Gelade (2016); www.economicshelp.org

In summary, while the expected utility theory assumes individuals will make decisions about insurance based on what outcome will give maximum satisfaction, Prospect Theory allows individuals to consider putting more weight on their losses when viewing risk benefits (Gelade, 2016). As a result, the two theories can help explain insurance decision-making and whether consumers would prefer to measure their risk management in the form of losses or gains or base it on their utility.

- **2.4.3 Ansoff growth model**

Ansoff's Matrix is a model that provides strategic decision-making and presents an excellent theoretical basis to study the supply side factors influencing microinsurance penetration. For many countries, the provision of insurance to the low-income segment has not considered any cultural or specific circumstances of the target market; rather, traditional insurance mechanisms have been scaled down by reducing benefits and premiums (Cohen & Sebstad, 2006). Mazambani & Mutambara (2018) believes that microinsurance is developed using a one-sided approach creating a mismatch between consumers needing the service and providers supplying it. The overall effect of the mismatched demand and supply is low initial uptake of products by consumers, policies not being renewed, leading to high lapse rates and overall reduced

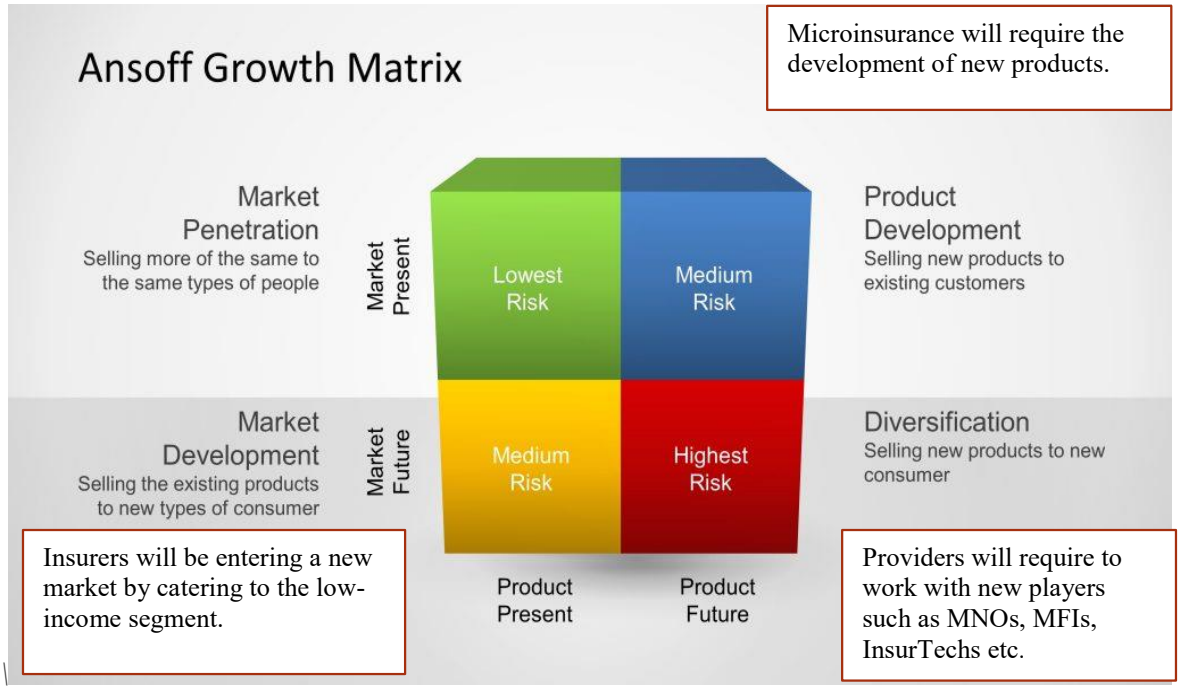
persistency. Therefore, strategic positioning is critical for the supply-side to respond appropriately in driving insurance usage for the microinsurance market.

We review Ansoff's growth matrix by focusing on a mix of products and customers, putting them in four market growth strategies (Hall & Lobina, 2007). The quadrants are market penetration, market development, product development, and diversification, as listed in Figure 8. For this study, we will focus on the three quadrants outlined below :

a) Market development - offer the same products to new customers.
b) Product development - firms offer new products to existing customers
c) Diversification - provides new products to new customers.

We are not using the market penetration quadrant as it refers to existing customers and existing products, which cannot apply to the microinsurance market since it is relatively new for many providers. The growth vectors that companies must use in applying strategic decisions should be guided by where they view themselves in the market and the type of product needed to determine which quadrant they fit into to create a competitive advantage (Hall & Lobina, 2007).

Figure 6: Ansoff matrix model



Source: Hall & Lobina, (2007) with additional author's illustrations.

2.5 Factors Influencing Microinsurance Penetration

- **2.5.1 Supply-side factors.**

Providers have been reluctant to invest in this market primarily because of the weak reception and the vast constraints they must grapple with to run a successful program (Dror & Jacquier, 1999). Some of the challenges affecting the distribution of microinsurance products include hardware and software infrastructure such as poor roads, lack of payment platforms, and poor internet connectivity. In addition, distributors have to spend significant resources, including time, effort and money, to collect and transfer information while manually administering products (Prashad et al., 2014). As a result, various non-distribution players have incentivized providers to participate as the industry is still embryonic in many markets worldwide, especially in Africa (Ime & Ikechukwu, 2017). This section looks at some of the tools used in microinsurance distribution and how it affects penetration.

i) Use of technology.

Over 80% of the African population now use mobile phones regardless of location and age (Prashad et al., 2014). With the increased use of mobile (cell phones) in Africa, financial services providers such as banking, investment, and insurance, use this communication medium to reach more consumers. The potential of enhancing efficiencies is more extensive for the insurance industry while explicitly using the phone as a distribution model. It holds the immense promise of lowering transaction costs (Llanto, 2007). It also allows for expansion; reaching more young people to embrace insurance (Churchill, 2007).

As mobile phones continue to expand in reach, MNOs are increasingly being used to deliver insurance services in two forms across many jurisdictions in Africa: i) as a delivery channel through USSD or ii) as a distribution partner tapping into their customer base. We provide some examples of models used in some economies in Figure 7.

Figure 7 : Examples of how MNOs have been used for delivery of microinsurance

Name	Country	Insurance Cover	Mobile phones used for
Tata AIG Cattle	India	Livestock	enrollment, admin. & claims processing, value-added services
Zong Insurance	Pakistan	Life and accidental death	enrollment, premium admin., value-added services, data analysis and management

YuCover	Kenya	Life, accident	enrollment, premium, policy and claims admin., value-added services, data analysis and management
Kilimo Sahara	Kenya	Weather Index	enrollment, premium collection, claims processing, value-added services
MTN Mi – life	Ghana	Life & Accidental death	premium collection, claims processing, value-added services, data analysis and management
Ecolife	Zimbabwe	Life	enrollment, premium collection, claims payment
Tigo Family Care and Extra Life	Ghana	Life	enrollment, premium collection, claims processing, value-added services

Source: Prashad et al. (2014)

Furthermore, the increased use of phones has given birth to the innovative concept - InsurTech organisations[7], facilitating the increased penetration of insurance products to the mass market. (Braun & Schreiber, 2017) While the concept of InsurTech organisations started as far back as 2000, it has been gaining traction in Africa over the last six years as a tool for driving the digital agenda and expanding distribution options for microinsurance. Between 2015 and 2019, 292 InsurTech organisations have offered some services in Africa. They are helping resolve some significant pain points of insurers, such as customer enrollment, product design, premium collections, distribution, and claims management (Microinsurance Network, 2019).

While focusing on technology may lead to much-needed growth in volumes in the microinsurance industry, most of the target market is found in rural areas where access to certain infrastructure such as internet connectivity is limited. (A)Additionally, without human interaction, providers need to continuously monitor customer knowledge about product benefits and further address gaps in understanding. For example, one provider, Yumobile, that offered a purely digital product had to consider a voice education option accessible through USSD, and SMS tests to gauge understanding of the product to clear misunderstandings around their disability benefit (Prashad et al. 2014).

ii) Partnerships

Distribution is expanding through partnerships across different value chains. Partnerships in this context are being defined as formal legal partnerships primarily between insurers and

[7] InsurTech stands for insurance technology. It has been defined as digitizing various touch points across different value chains in the insurance industry. (Braun & Schreiber, 2017)

distribution channels. Traditionally, microinsurance has been driven mainly through financial institutions, such as banks and microfinance companies (MFIs), to reduce credit risk in the event of loss of any of their borrowers. While this form of insurance can help protect the households in such circumstances, it mainly aims to safeguard the portfolio of the respective financial institution (Frankiewicz & Churchill, 2011).

Partnerships need to extend to member-based stakeholders in the informal sector to reach scale in the un(der) insured market. This is because the member-based groups are better placed to understand their unique needs for the members and would drive the necessary influence required for microinsurance volumes needed. (Akotey et al., 2011). Of course, the motivations for the partnerships may differ between the organisations. Still, the partners must be aligned in terms of objectives, i.e. they will need a win-win solution for everyone for the co-operation to succeed.

While the checklist of a good partnership may be broad, specific components are essential. (Prashad et al., 2014) highlights an essential checklist to include the capacity of the distributor, such as the size of business, number of clients and systems available. Secondly, assessing what value the microinsurance business might directly bring to the distribution partner's core business and how offering insurance services can add value to its operations or members. For example, microinsurance benefits may attract new members or clients or help with client retention. Thirdly, while aggregators may cause higher transactional costs to the provider, they play an essential role in facilitating access to information on various vital requirements for improved customer experience. For example, partnering with an MNO for distribution has led to quicker turnaround times on claims by TATA AIG, which reduced its claim turnaround time from 21 days to 7 days (Prashad et al., 2014).

b) Products, Premium, and Claims Administration

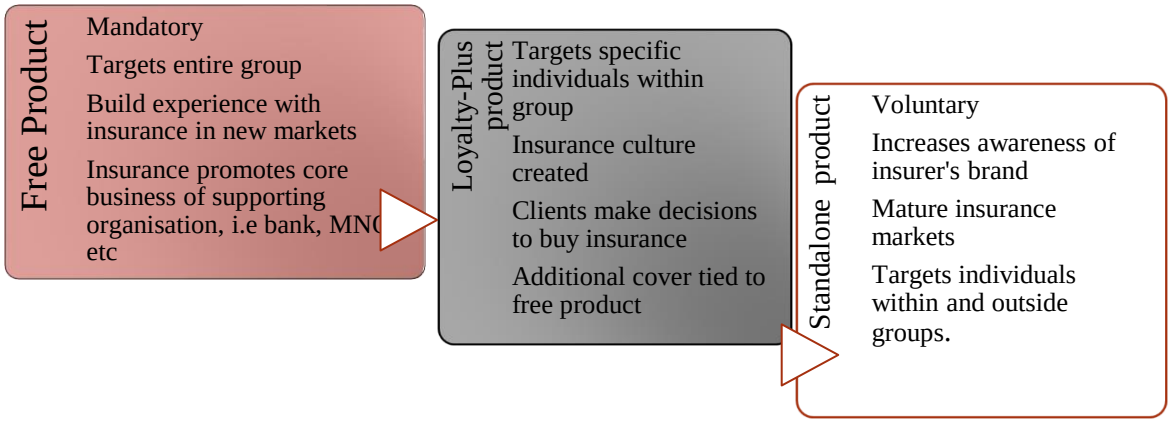
i) Products

Microinsurance products use the same insurance core principles used by traditional insurance. However, to respond to the unique challenges the market offers, providers will need to tailor-make their product and premium structure as they look to drive demand for insurance products in the low-income market(Liber et al., 2007). In addition, creating products that are easy to understand and allowing flexibility is what the microinsurance segment requires (Swiss Re, 2010).

Products are either offered on a mandatory or voluntary basis. Mandatory insurance products may be embedded in a primary product at no additional cost to the customer, for example, using MNO 'talktime' or bank 'maintenance fees', otherwise known as a 'freemium'. Premiums and benefits in many cases for these types of products are small. Therefore, they can be tapped in to gain experience in the insurance market. Examples of models include Ghana's TIGO, a free loyalty cover, where coverage has been extended to at least one million people with 550,000 policies to mainly first-time policyholders. As an extra benefit, providers could include additional features on the free product that customers are voluntarily meant to pay for (Prashad et al., 2014).

Standalone products are often voluntary, and customers purchase the product independently. The benefits are the highest under this stage, and solutions often have more detailed terms and conditions. Extra direct income can be raised using this model, with lower costs and often more sustainable. The better the experience for customers, the more insurance markets mature. A summary of the different types of products with some features is outlined in Figure 8.

Figure 8: Different types of products available



Source: Product evolution, Leach(2012), in Prashad, (2014)

The market's maturity level also determines what products can be offered. For example, while the free and loyalty-plus might seem like easy products, the commercial value is lower than optional standalone insurance options carrying less risk. In that case, any negative experience will affect their demand for standalone voluntary products, as illustrated by the example of Ecolife (Prashad et al. 2014) Ecolife launched an embedded life insurance product supplied to subscribers of the MNO Econet on an opt-in basis. In less than a year, it covered 1.6 million people. However, the challenge was that clients of Ecolife had a poor understanding of the product, partly because they were provided with insufficient documentation. Ecolife also made

excessive SMS communication and implemented unclear claim processes, negatively affecting them (ibid).

ii) Premium Administration

Premium Administration is viewed from the angle of the level of flexibility available around premium collections. As stated earlier, it is paramount to dwell on flexibility in the microinsurance sector since most informal workers do not have a regular income. At the same time, an appropriate insurance premium should include the pure risk premium (to cover expected losses), safety loadings for the process (to account for fluctuations of expected losses), and parameter risk (Biener & Eling, 2012). The timings of when the collections of premiums should occur become paramount. Providers, therefore, have to ensure that premium collection mechanisms can allow accommodating the cash inflows of the households.

Historically, the premium collections require formal banking services, which many in the microinsurance market do not have as typically income is not always regular, creating inconsistent cash flow cycles (Akotey, 2011; Guha-Khasnobis & Ahuja, 2004). For example, some providers in Ghana experienced a high lapse rate of policies because of experiencing challenges in premium collection. Some of the product offerings eventually collapsed (National Commission of Ghana, 2008 as cited in Akotey et al., 2011)

iii) Claims Administration and Claim ratio

Efficiency in the claims process is a critical feature of a successful microinsurance solution and a key selling feature (Churchill, 2007). There lies a perception that the claims ratio[8] in the microinsurance market is very low. This concern has become a topical issue as there lies a view that providers charging more than the required price to cover the risks arising out of IA.
Bowman(2014) states that it may be unreasonable to expect higher claims ratios in the initial stages of development as they focus on building awareness. This may result in a low claims ratio. For many providers, it may be difficult to break even.

c) Stage of Development.

Ultimately, for microinsurance to be sustainable, it has to be profitable. Therefore, insurability needs to be assessed to understand if all risks can be commercially successful or whether they should be purely used as a tool for social protection. The commercial viability also speaks to

[8] Claims ratio is defined as

the level of maturity existing in the market. Bowman(2014) argues that a market that is in initial stages of distribution may face higher costs of marketing due to focusing on driving awareness. In the past, low-income households were considered uninsurable because of the various risks faced; however, innovation has allowed better management of some risks (Guha-Khasnobis & Ahuja, 2004). Market failures do exist in the microinsurance market as there is a set of consumers who may only be covered solely for social protection schemes of the government and cannot be catered for by commercial players (Yore & Walker, 2008).

The stage of development also depends on the available product-customer mix, as shown by the Ansoff Growth Theory. While many markets are still only offering embedded or mandatory solutions, some have extended their offering to include voluntary solutions to existing or completely new customers.

- **2.5.2 Exogenous factors**

Some factors that influence microinsurance penetration are market forces outside the control of supply and demand players.

a) Regulation

Support from the regulator is vital, especially as microinsurance is still in its infancy in many countries. Regulations should be adequate, impartial, minimally disruptive, and transparent (Skipper & Klein, 2000). A restrictive regulatory environment may constrain efforts to provide insurance to low-income households (Llanto, 2007). Some of the factors highlighted as key for successful regulation of microinsurance are highlighted in a study by Beiner et al. (2014) to include a definition of microinsurance, which should contain a combination of the low-income target market, have low limits, simple coverage, and easy capital requirements; product requirements that specific product design and pricing regulations for life and general insurance categories for example in Brazil, emphasis has been placed on using simple terminology; pricing may include parameters on restrictions through providing especially upper limits thresholds or use of direct premium subsidies; licencing of distributors including the use of technology: in India and many countries, microinsurance agents, also known as *InsurTech organisations* and *brokers*, are mainly allowed to distribute microinsurance products in exchange for less strict licencing requirements.

The Pensions and Insurance Authority (PIA) will provide a separate microinsurance licence in Zambia according to the new Insurance Act of 2021. They will join South Africa, Kenya, and Ethiopia, which require a microinsurance licence to operate (Beiner et al., 2014).

b) Macroeconomic variables

Macroeconomic variables are beyond the direct control of demand and supply and can positively or negatively influence microinsurance penetration. For instance, a rise in inflation will directly affect demand, reducing the ability of consumers to pay the premiums. Suppliers would pay fewer benefits and lose customers, directly impacting income. Additionally, supply-side factors would see an increase in their operational expenses (Lim & Haberman, 2011).

c) Impact of COVID-19

The COVID 19 pandemic has affected people's livelihoods and risk management tools. While people may now appreciate insurance more, the pandemic has had a devastating impact on both the demand and supply sides. Some people are unable to meet their premium obligations, having been retrenched. Lack of human interaction has also greatly affected accessibility and product awareness (Microinsurance Network, 2020).

- **2.5.3 Demand-side factors**

a) Customer expectations

Customer expectations for this study have been defined as per Akotey et al. (2011)' s study to include efficient claims settlements, trust in the insurance provider and expected benefits/value of microinsurance. As insurance is an intangible product, its successes lie in managing customers. Therefore, perception also becomes a key determinant in demand, making trust essential in influencing customer decisions about uptake. In many markets, consumers are unsure about paying in advance for a service that they may or may not receive in the future from an institution that they do not know or, at worst, do not even trust. Customer expectations also extend to providers taking the lead in ensuring product and insurance benefits are explained to customers as often as possible (Gehrke, 2014). For example, where consumers are confident that insurers will settle their claims whenever they are due, they would be willing to purchase an insurance product. Expectations become important because microinsurance purchases are viewed together with additional risk management tools used in the low-income market. The social, political, economic conditions, therefore, play a part in modelling expectations and understanding why people would buy microinsurance (Giesber & Steiner, 2015)

b) **Lack of awareness and poor product knowledge**

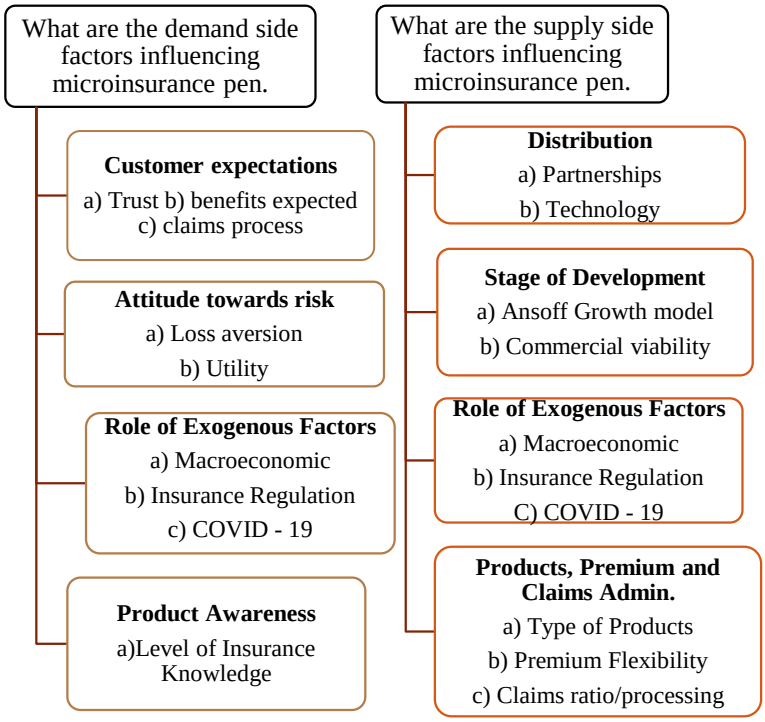
In the low-income market, many households believe insurance is not a necessity. As mentioned earlier, many processes around insurance are misunderstood, leading to challenges in customer expectations, premium collections, trust, expected benefits and claims process. (Akotey et al., 2011). Generally, the lack of understanding of the main principles of insurance, such as the risk-pooling concept, are some of the more significant issues the industry needs to sort out collectively. In some cases, insurance product knowledge challenges could extend to the lack of financial literacy of all financial products and are not limited to insurance. (Eling, Pradhan & Schmit, 2014); Churchill(2007); Mccord(2008) believe that continuously educating the low-income market will help create demand however the challenge may be how to disseminate the information effectively.

One of the ways product awareness can be enhanced is through awareness campaigns focused on showing the strengths and benefits of the products available. Use of word of mouth, referrals, testimonials and member associations would be simple but effective ways of sharing the information. "Distribution channels such as mobile networks, social media platforms, associations and clubs can also be used" (Matambara & Mazambani et al. 2018). Other ways in which product awareness can be enhanced include ensuring microinsurance agents are well skilled and knowledgeable about insurance. This would allow them to articulate the benefits in the simplest of terms, a cardinal requirement for the success of the microinsurance sector (Leftley & Mapfumo, 2006)

c) Attitude towards risk.

Another demand-side factor that the paper reviews is consumers' attitude towards risk, from a theoretical basis of utility or loss aversion. While loss aversion may be viewed as avoiding the worst possible outcome, attitude towards risk may be viewed from consumers seeking cover to provide peace of mind and maximise utility. As stated by Magazi (2019) households' attitudes towards risk may affect their decision making and is directly related to their wealth status. Unfavourable unexpected shocks may increase their vulnerability to poverty and have longer-lasting effects on development (Dercon, 2004; Elbers et al., 2007 as cited by Magazi, 2019). A visual summary of the conceptual framework that the study is employing to assess what factors are influencing microinsurance penetration in Zambia are shared and outlined in Figure 9 below.

Figure 9: Overall Construct/Conceptual Framework



Source: Author's research

2.6 Empirical Literature

The study now reviews the empirical literature related to the constructs of demand and supply being applied in assessing how they may influence microinsurance penetration.

- **2.6.1 Demand-side factors**

Duku(2018), while undertaking a quantitative study, found that particularly related to customer expectations, the determinants of household demand for microinsurance include trust, quality of product and accessibility of services. Akotey et al. (2011), in another quantitative study, while using similar factors of trust, prompt payment of claims, and value of microinsurance products, also found a positive relationship between expectations and demand.

Trust, benefits expected, and accessibility of claims services are all driven by the perception and expectations of the customers. We review literature that provides evidence of perception in the three elements that can influence microinsurance penetration on the demand side. Trust is a crucial factor affecting microinsurance demand, according to Platteau et al. (2017); Ime & Ikechukwu (2017), while studying the demand side for microinsurance in separate studies across multiple markets and Nigeria, respectively. Yore & Walker (2018) found that trust was enhanced when consumers were familiar with service providers who had vested interests in the

long-term use of the products and those easily accessible. Some of the organisations are banks, MNOs, MFIs, and cooperatives. This view is supported by Mccord(2008), who, in a quantitative study, found that if low-income earners trust that insurers will honour their contractual responsibilities by making timely payments of claims when necessary, they will have the confidence to take up microinsurance cover. An example of how the relationship is key is shown by Giesbert & Steiner (2015) who in their qualitative study, found that while some participants trusted future indemnification payouts by the provider, others had low trust, mainly informed by how strong the historical relationship between the rural bank and the sales agent had been.

Perception drives demand in this industry as consumers in the microinsurance market are atypical laggards who depend on early adopters' experience. Therefore, they are more likely to adopt a microinsurance product only after seeing someone enjoying the benefits (Matambara & Mazambani, 2018). As Llanto (2007) in a quantitative study indicates, people in the low-income segment either lack an understanding of insurance or negatively perceive it (distrust) based on either experience or someone who had a bad experience. However, some people believe that this product is for rich people and do not trust it, thinking it will do more harm than good (Matambara & Mazambani, 2018). Further, Thornton et al. (2010) found empirical evidence showing that people's negative perceptions and views around insurance were often unfounded in a qualitative study.

Claims management thus becomes essential in this market as it involves honouring a promise by an insurer in the event of a valid claim being submitted and is a critical factor that Chuuman (2017) found with the Cronbach Alpha Coefficient of 0.93 showing excellent factor reliability. Simon et al. (2014) add by observing that activating microinsurance demand through demonstrating the benefits of their products through delivery on the promises is vital for success. To illustrate the importance of claims management, Minani et al. (2018), while getting feedback on the claim's procedures from date of submission to claim settlement, found that 88.9 per cent of respondents expressed dissatisfaction with microinsurance responsiveness, therefore creating a negative perception. Furthermore, issues of IA can also create negative incentives through the excessive provision of services such as prolonged hospital stays and overuse of diagnostics and drugs adjunct to health insurance, as found in a study in Vietnam (Sepehri et al., 2006).

In addition to expectations, insurance knowledge is another crucial factor influencing microinsurance demand. In Zambia, a qualitative study undertaken by Finscope (2020) revealed the most prominent barrier affecting the demand for insurance products remains the lack of awareness at 41 per cent even though it improved from the 87 per cent found in 2015. Furthermore, lack of understanding (12.5 per cent) was also a factor found among its respondents. In Uganda, a qualitative study undertaken by Finscope in 2018 had similar findings to Zambia, with *lack of understanding and affordability* being the top two barriers affecting the demand for insurance (Finscope, 2018).

Akotey et al. (2011); (Gerhke 2014) also found that the level of insurance knowledge significantly influences microinsurance demand. Both studies emphasise the importance of providers keeping consumers well informed and constantly providing insurance education in order for them to see the value of insurance. Savitha & Kiran (2012) support this finding, adding that renewals in the microinsurance market positively correlate with knowledge and product awareness.

It has been stated by various literature that penetration of microinsurance remains low. However, the majority are also very uninformed about the *insurance concept*. They are preoccupied with earning a living, supporting their families and communities and is used as a catalyst in driving understanding and usage of insurance solutions(Dror et al., 2019). This view is established in a study by Manik & Mannan(2017), who found a positive correlation between improved insurance knowledge and trust in the insurance provider while undertaking a study in Bangladesh.

Providing the proper knowledge should also occur even before solutions are offered, as established by Jain et al. (2014) in a quantitative study undertaken in rural India that found that raising awareness before an insurance product launch led to a better appreciation of the concepts and was a positive factor in enrollment into various community schemes. Giesbert & Steiner (2015), in a qualitative study, also found that matters such as personal knowledge about insurance and specific details about a policy's insurance coverage are helpful in decision making. They also established that even though some people had a general understanding of insurance, those with limited education struggled to understand the technical terms processes used by the insurance providers while others had limited opportunities to accumulate knowledge about the functioning of insurance. The level of understanding is a finding that

Akotey et al. (2011) in a quantitative study found plays a positive and significant factor in the demand for microinsurance.

Even while insurance education is critical, Mccord (2008) states that providing the education needed on a broad scale to address the needs of everyone will prove to be a challenge as there are different degrees of literacy in the target market.

Different studies, theories and behavioural economics have attempted to explain consumers' demand for insurance regarding attitude towards risk. The study reviews only two theories out of the many and how they can influence microinsurance. Platteau et al. (2017) found that consumers' perception of utility and loss aversion could negatively or positively influence their decision to purchase insurance. However, not all studies agree with the *extent* to which the expected utility and prospect theory explain insurance behaviour (Ito & Kono (2010), as quoted in Platteau et al. (2017)). For example, a study in the USA disagrees with an aspect of the Prospect Theory, which focuses on *overweighting of loss*. In its study, using an example, it shows that consumers demand more than a 20 per cent reduction in premium when insurance has at least a 1 per cent probability of non–payout (Wakker et al.,1997).

Another mixed methods study provides a criticism to the expected utility theory(EUT) by disagreeing that individuals view of utility in form of gains will drive their usage of insurance. The study argues that the view held under EUT cannot be applied in African countries because of the high level of informality and poverty. Further, the EUT does not consider the effect of information asymmetry prevalent in the African microinsurance market. They instead find that group consensus influences the individual's decisions who incorporates others' experiences and perceptions when deciding on an insurance purchase. Their empirical findings reveal that the critical effect of seeking group consensus reduced IA by incorporating the experiences and perception of trusted peers with the decisions of the individual (Dror et al., 2018)

Minani et al. (2018) found that positive perceptions of insurance positively impact demand, leading to a positive attitude of low-income earners. On the other hand, Dercon et al. (2011) give another view and found that risk-averse people in the domain of losses are even more risk-averse in gains, further adding to the mixed opinions of the prospect theory. Despite this, Platteau et al. (2017) state that it is still debatable whether these results support or contradict the views that people are risk-averse.

- **2.6.2 Supply-Side Factors**

In a quantitative study, Platteau et al. (2017) found that high insurance prices resulting from the high cost of administration, costs of reinsurance, high transaction costs, basis risk, and poor service quality as factors that will play a part in an insurance company decision to get into the microinsurance industry and may influence microinsurance penetration on the supply-side.

In terms of distribution, the use of partnerships was positively and statistically significant – 5 per cent – in a study undertaken by Minani et al. (2018). The study revealed that partnering with organisations such as market women's associations was helpful because informal workers often see them as "local" and "their" own and can resonate with similar interests and shared backgrounds. Furthermore, the participation of organisations from the informal sector assists in streamlining the premium collection and claims processes which are meant to drive cost efficiency. Working with member groups can also help reduce some of the IA associated with adverse selection and moral hazard. (Minani et al.,2018).

Information asymmetry (IA) issues of moral hazard and adverse selection were highlighted as causes of poor performance in a multiple–risk crop insurance that Mosley (2001) examined across agricultural schemes in Ethiopia, India and Uganda (Mosley 2001, as cited by Brau, 2011). Akomea et al. (2021), using the principal component quantitative analysis, found that asymmetric information arising from hidden facts, disinformation and unwillingness to cooperate with the insurer to provide necessary information for designing contracts. The problem of IA is further compounded by weak internal systems, which cause further problems in underwriting. Beiner & Eling (2012), while reviewing insurability from 131 journals in a quantitative study, found that the management of information asymmetry was a significant ingredient of insurability in the microinsurance market and affected how providers gauged their appetite.

Technology is being used to improve cost-effectiveness in various processes of the value chain, especially as consumers in urban and rural now have access to a mobile phone. In a quantitative study, Tellez & Zetterli(2014) found that mobile phones were used to enrol members by 70 per cent of insurance schemes. For agricultural microinsurance products, the use of remote sensing technology to support risk management and mitigation through the development of indices for objective assessments have allowed previously uninsured risks to become insurable (Gerhrke, 2014). In order to reduce risk, sensory systems could be used `to provide warnings (Lashley

& Warner, 2015). In addition, Prashad et al. (2014) found that mobile technology can be harnessed by allowing the processing of transactions from remote places at low transaction costs, thereby advancing the development and adoption of microinsurance

Zualuaga(2010), while discussing products using a case study in Columbia, found that microinsurance penetration increased when having simple products with very few exclusions, an efficient premium collection system, and selling products using face-to-face channels, resulting in better claims experiences for consumers. In addition, a qualitative study undertaken in South Africa among low-income households found that 81 percent of respondents considered death one of the predominant concerns they would seek insurance for. That coupled with simpler actuarial and product design requirements for providers have allowed funeral products to be the leading solution offered in the South African microinsurance market using a more local community centred distribution approach (Aliber, 2002).

In a qualitative study undertaken by Giesbert & Steiner (2015), participants argued that it was a huge burden for most of them to ensure that they continuously had insurance premiums. In addition, the respondents felt that most market players did not account for their inability to make regular payments. Akotey et al. (2011) recommended in a quantitative study undertaken in Ghana that microinsurance suppliers make provision to cater to the cash flow nature of informal workers in their product design to allow for flexibility in premium payments. Akomea et al. (2021), in a quantitative study, found that premium receipts were higher for auto subscribed products, and poor premium income resulted from low renewal rates and irregular premium receipts.

The stage of development also plays a role in the sustainability of microinsurance programs. According to Mccord & Osinde (2005), providers face difficulties attaining sustainability and profitability goals primarily because of limited data availability hence applying a trial and error approach in product design and premium set-up. Further, many schemes in the past struggled to deal with fraud, adverse selection, and moral hazard (Ito, Kno, 2010; Mccord, 2008), leading to fewer providers showing interest. Some of these challenges in the microinsurance market have caused models not to mature as expected and allow the market in many countries still in infancy. Controlling IA problems will allow markets to develop and drive financial sustainability; therefore, looking for initiatives that can help reduce the effects would go a long way (Matambara & Mazambani, 2018). Beiner & Eling(2012), while reviewing 131 journals,

found that a group-type of distribution was seen to have resulted in lower transaction costs and fewer issues with adverse selection as it allowed them to reach a large audience and give providers the ability to achieve economies of scale. Aliber (2003) found while undertaking a case study in South Africa that providers have seen successful in the low-income market primarily off the back of funeral products that consumers widely accept. This has allowed more providers to enter the market using tried and tested distribution models and have been able to reap profits primarily because demand for the solutions created is generating sales volumes that are required to create success.

Other than emphasising the importance of keeping processes such as claims simple, one of the issues commonly discussed around microinsurance is the claims ratio. For many markets in Africa, the claims ratio is often considered low compared to other regions like Latin America Chikalipah & Makina(2019). According to a study undertaken by Chikalipah & Makina(2019), some of the reasons for the low claims' ratio include the lack of awareness and understanding of claims processes, standard claims process which may be considered complex in microinsurance, small claim payouts and challenges in securing supporting documents for others. In some studies, the low claims ratio is attributed to insurance companies setting up higher-than-required premiums to cover the unknown risks due to information asymmetry challenges (Garant, Kitasoboka, Achaw, & Gruijters, n.d)

- **2.6.3 Exogenous factors**

Exogenous factors also play a role in influencing microinsurance penetration and can therefore strengthen or weaken both demand- and supply-side factors.

a) Regulation

A study by Beiner et al. (2014) analysing regulation and its efficacies across different countries revealed that some countries had to continuously change the regulations to be relevant and valuable to the industry. The study further states that regulation can successfully help the industry by allowing for more market entry through innovation, providing minimal capital requirements and improving market efficiency by engaging data-gathering and analysis services. Additionally, in a quantitative study, Akomea et al. (2021) found that delays in implementing specific regulations led to fraudsters taking advantage of loopholes to file false claims, thereby negatively impacting the performance of microinsurance providers.

b) Macroeconomic factors

Macroeconomic factors are variables that may equally positively or negatively influence microinsurance penetration. A qualitative study undertaken by Price Waterhouse Coopers (2019) noted that the economic environment significantly affected insurance uptake in Zambia. It was pointed out that economic challenges lead to less disposable income, which resulted in insurance products falling down the list of priorities for companies and individuals alike on the demand-side. Alhassan & Biekpe(2016) found that inflation had a negative effect on demand for life insurance. Akomea et al.(2021) found in a quantitative study in Ghana that constant fluctuations in interest charges and inflation rates caused increases in the price of products and were some of the external factors that were unattractive to potential policyholders as they limited the distribution of microinsurance to low-income earners.

c). Impact of COVID 19.

Through 2021, the world was unexpectedly ravaged by the COVID 19 pandemic. Unfortunately, the microinsurance industry was not spared. According to a study undertaken by the microinsurance network, respondents represented issues in their respective countries in Africa, Asia, Europe, Latin America, and North America. The survey focused on the business case of microinsurance and how COVID 19 has impacted different operations. A summary of the findings from the 19 respondents who took part to reveal some negative and positive impacts:

i) on the positive side, providers can fast track their digitalisation process and improve innovation while building resilience. For instance, some providers are now looking to create self–service *apps* for customers to apply for products and process claims electronically using mobile money. Further, there has been an increase in solidarity among providers.

ii) Some of the negative impacts the survey found were that there was a reduction in sales activities as microinsurance in many markets was highly dependent on physical interaction, indicating that the digital efforts will most likely only benefit the market in the medium- to long-term and the effects of the lack of physical contact will be felt more in the short-term

iii) Another critical negative impact on the supply-side was delay in concluding partnerships and new agreements that affected distribution.

2.7 Summary

This chapter provided a historical and general overview of Zambia's insurance and microinsurance market. It began by providing some key definitions on concepts applied throughout the study after which it reviewed theoretical literature relating to various theories that may impact decision-making by demand and supply-side players. In the empirical literature reviewed, the research was able to find useful information from other similar studies on the various factors reviewed, with similarities and differences found. Some literature is backed up with examples to illustrate how certain factors have influenced microinsurance penetration.

The research was able to establish some gaps in the available academic literature on microinsurance specifically. This study will add to the academic literature on microinsurance in Zambia by providing context to demand and supply. While factors that may influence microinsurance are many, the study has developed a tailored conceptual framework to assess how they have influenced penetration over the years. Future studies may use this framework in quantitative, qualitative or mixed-method form. In addition, the study will look further at assessing the effect of various exogenous factors on both demand and supply, including COVID 19, a new factor that has changed many business operations that previous research reviewed has not assessed in the format used in the dissertation.

CHAPTER THREE

Methodology

3.1 Introduction

Methodology broadly defines how a researcher conducts research (Jocker et al., 2010). This chapter aims to outline this study's research approach and design, including data collection and analysis methods undertaken to answer the study's research questions and achieve research objectives.

3.2 Research Approach and Design

In applying our theories and concepts to determine factors influencing microinsurance penetration, the researcher assessed which of the different approaches could be appropriately used in answering a series of questions set down in the research. Qualitative and quantitative research techniques are two methods traditionally used when conducting research. Qualitative research is an inquiry process based on distinct and methodological traditions of inquiry that explore a social or a human problem. The researcher builds a complex, holistic picture, analyses words, reports detailed informants' views and conducts the study in a natural setting (Creswell, 1998). Quantitative research refers to using methodological principles of positivism and neo positivism. It adheres to strict research design standards developed before the actual research. It is a quantitative measurement, and hence statistical analysis is used (Adams et al., 2014). The two can be combined to come up with a mixed-methods approach.

This research has adopted a cross-sectional methodological approach utilising qualitative research techniques. The qualitative approach was adopted to understand the factors influencing microinsurance penetration in Zambia. As Symon & Cassel(1998) described, qualitative research provides the necessary in-depth and exploratory tools to achieve a clear picture of a topic. The researcher used interviews to have in-depth discussions that allowed follow-up conversations with participants to explore and understand the problem. A qualitative approach helped avoid participants feeling uneasy and freely discussing their opinions and views (Gill et al., 2008). Further, a qualitative technique is preferred as the study's goal is to observe, interpret, and gain a deeper understanding of what factors influence microinsurance penetration in Zambia (Creswell & Creswell, 2017).

A qualitative approach thus has been the most appropriate methodology for two reasons: microinsurance is currently only being used by a limited number of providers and consumers, and as the researcher was looking to understand the *factors* influencing microinsurance penetration from a supply and demand perspective in Zambia

- **3.2.1 Data collection**

Data was collected from participants using primary data collection tools. Before commencing with data collection, ethical clearance was sought from the University of Cape Town (UCT) Ethical Clearance Committee. Approval by the Ethical Clearance Committee was provided on the 7th of July 2021. To fully understand the factors influencing microinsurance penetration, the researcher obtained first-hand information from the consumers and providers of this service, including supporting organisations. The primary data collection method involved interviews using a semi-structured questionnaire. As the research was conducted during the COVID – 19 pandemic, it was not possible to engage physically with all respondents. However where physical engagements were possible it was a requirement that all COVID 19 health guidelines were followed including to social distance, mask up and sanitize. Further due to the restrictions on physical interactions most of the interviews were conducted online via Microsoft Team and telephonically as a second option. All interactions were recorded after seeking consent from the participants. Where it was impossible to complete the interview via web or telephone, the semi-structured questionnaires were shared with the participants, and follow-up telephone conversations were held where there was a need for clarification.

Out of the various primary data collection methods, semi-structured questionnaires and interviews for the participants were the best forms of data collection. The semi-structured questionnaires and interviews included open and closed questions to gain an in-depth understanding of the factors influencing microinsurance penetration. The discussions also allowed the researcher to see things from the interviewee's perspective (Jonker & Pennink, 2010).

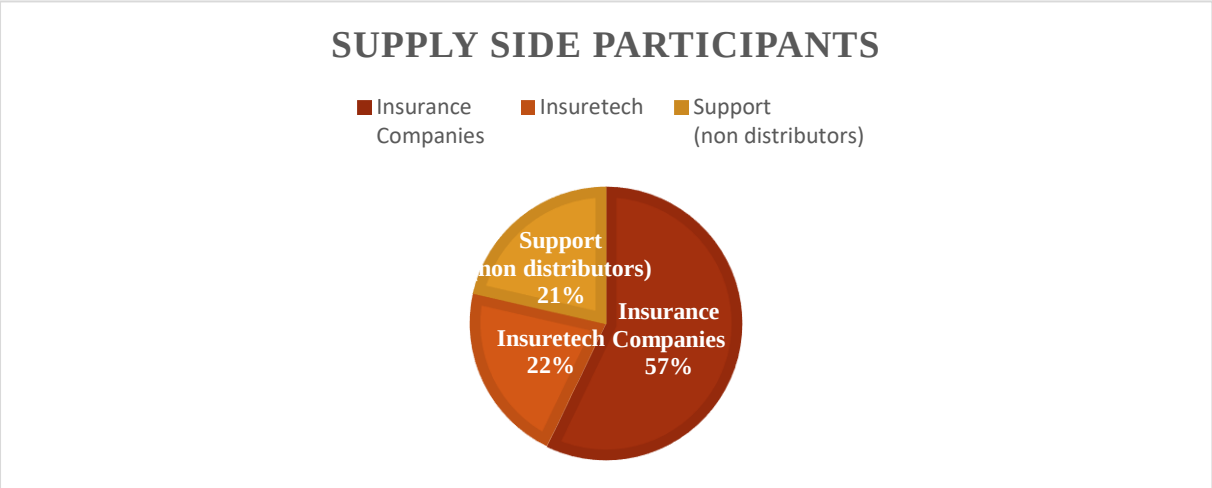
- **3.2.2 Sampling**

Sampling is the process or technique of selecting a suitable sample to determine the whole population's parameters or characteristics (Cochran, 2007). One should bear in mind what size the sample should be, whether the measure is statistically justified, and lastly, what sampling method is to be used (Adams et al. 2014).

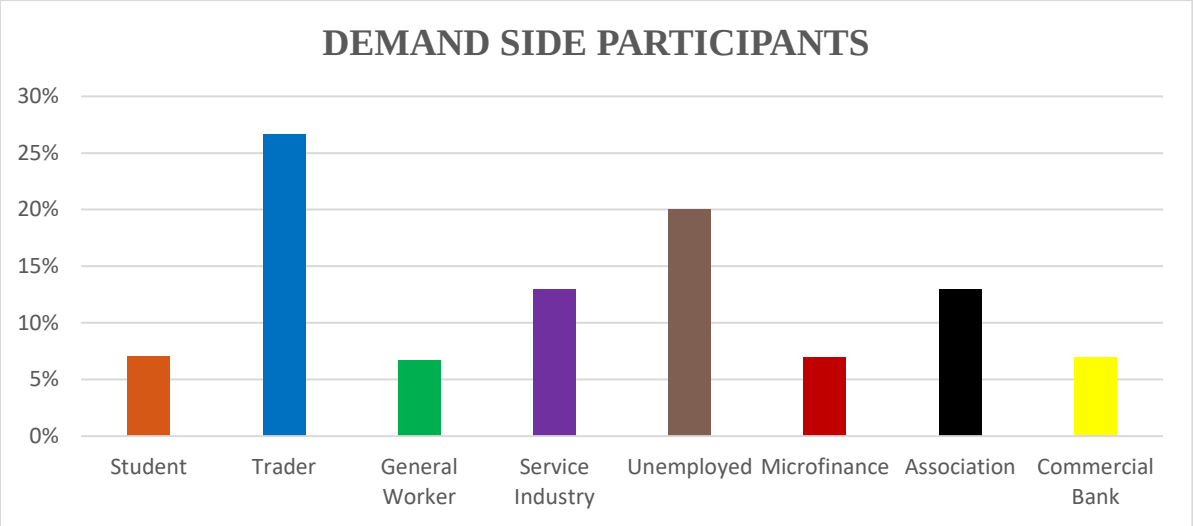
This study determined the sample size by the number of players currently offering microinsurance, and a selection of consumers who would have had some experience of with microinsurance. Purposive random sampling, a non-probability sampling technique, was utilised for primary data collection as the researcher targeted specific players in the microinsurance industry. To be specific, on the supply-side, the researcher targeted the insurance companies, intermediaries, InsurTech organisations, and institutions, involved in the microinsurance industry at distribution, product development, or other support level. While on the demand-side, the researcher approached institutional and individual consumers, the target market for the microinsurance industry.

The researcher identified and targeted 14 participants on the supply-side, with responses shared by 13, representing a response rate of 96%, as only one participant not providing feedback. On the demand-side, the researcher aimed to undertake interviews with at least 20 consumers from the microinsurance market with or without any experience of the various microinsurance products. Of the target, the researcher managed to interview 15 participants comprised of two, member associations, one agricultural co-operative, ten retail customers, one commercial bank and one microfinance company. This translated into a response rate of 75%. The breakdown of the supply-side respondents is highlighted below:

Table 2: Supply- and Demand-Side Participants Demographics



Source: Author's design from research data. **Note to figure**. : To ensure confidentiality, respondents will be identified by sector, gender and the type of organisation they work from.
Respondents identified per sector.
Insurance Companies respondents : 1 – 8
InsurTech Organisations respondents : 9 – 11
Non-distribution providers respondents : 12 - 14



Source: Authors design from research data **Note to figure**: to ensure confidentiality, respondents on the demand side will be identified by sector, gender and a number from one(1) to fifteen(15)

The response rate on both the supply- and demand-side was sufficient for the researcher to begin to generate analysis from the study. Mugenda & Mugenda (2003) states that a rate of 50 percent and above, is adequate for data reporting.

3.3 Data Analysis

It is essential to establish the standard links between different interview responses to synthesise and make inferences from the data, appropriately (Adams et al., 2014). Therefore, the researcher used thematic analysis to review the qualitative data. Thematic analysis is a method designed by Braun & Clarke (2006) to identify, analyse and report themes (patterns) inside data. The data set used should be organised and provided in detail. The researcher undertook the thematic analysis using the five steps as described by Braun & Clarke (ibid).

Table 3 – Steps undertaken in Thematic Analysis

	Description of Process used	Source documents(tools)
Step 1 – Familiarising oneself with the data	The researcher listened to the audio Microsoft Team recordings, phone conversations, and physical recordings twice following the interviews; data was transcribed manually, and Nvivo[9] was used to pick the initial ideas from participants from both demand- and supply-sides. All the data was standardised into an excel spreadsheet The researcher collated and standardised the data and transcribed it in the same format, for the participants who used questionnaires.	13 Microsoft Team recordings One physical visit recorded 12 telephone interviews recorded Three filled-in questionnaires (excel) to capture all of the raw data
Step 2 – Generating initial codes	Once the data was transcribed and further structured, the researcher began to simplify information by linking the responses to the themes under review. The main ideas from each question were highlighted and saved on a different word document.	State volumes of initial themes established Supply-side - 22 Demand-side - 15
Step 3 – Categorising the codes	Data was transferred to Microsoft Excel and reviewed for similar patterns. Similar findings were clustered into groups as prescribed in the conceptual framework to develop main themes with close reference to the research question.	All data was incorporated and categorised into the conceptual framework as outlined in Chapter Two. Each framework had, on average, three codes
Step 4 – Review of themes	Once patterns were established, themes came out of the data	The patterns from each concept were then established into articles from each feature.
Step 5 – Come with up Final themes	Final themes were generated from the data	Final themes were ready to be discussed and interpreted.

Source: Braun and Clarke (2006); author's research

3.4 Trustworthiness

A key issue with the qualitative approach is the inability to test the findings using statistical methods. There is thus a trust issue regarding the veracity of the findings. To be trusted, qualitative research must show that the data analysis conducted has been carried out in a consistent, precise, manner through recording, systemising, and proper disclosure, for the reader to determine whether the process was credible (Nowell et al., 2017). However, as quoted by Sutton, work by Lincoln and Guba suggests that there are other ways to "establish confidence in the 'truth' of the findings" (Lincoln and Guba as cited by Sutton 2015, p. 218).

[9] Nvivo is a qualitative analysis computer software produced by QSR International that helps qualitative researchers organise and find insights in unstructured data sets.

To drive trustworthiness, the research aimed to provide credibility to the findings. Credibility is defined as having confidence in the 'truth' of the results (Sutton, 2015). Further credibility refers to how others agree or *corroborate* with research findings. It is with this in mind that to establish credibility, this researcher used a process of triangulation throughout the multiple methods of data collection, while allowing for feedback, i.e. all respondents were provided with a semi-structured questionnaire beforehand, and everyone was accorded equal access. Once questionnaires were shared, interview appointments were made. If interviews were not possible, respondents filled in the questionnaire; where further clarity was required, respondents were reached telephonically

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CHAPTER FOUR
RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents a discussion of the findings. The analysis will be undertaken from a supply- and demand-side perspective. First, an overview of the demography of the respondents is reviewed in Section 4.2. Second, section 4.3 will look at the key themes found on the supply-side based on the feedback from the respondents. Thirdly, Section 4.4 will look at the key themes applying to the demand-side, based on the inputs from the various respondents. Finally, we will conclude the chapter with a summary.

4.2 Demographic information of participants

The details of the entire research methodology undertaken are shared in Chapter Three. Table 4 below provides details on demand- and supply-side respondents' demographics. The information includes occupation, average age, and gender on the demand-side. While on the supply-side, information on the type of companies engaged, their age range, gender and level in organisations was sought. The researcher interviewed fourteen participants on the supply side and fifteen on the demand side, whose breakdown and details are below.

Table 4 – Supply and Demand Side demographics

	Supply Side Demographics					**Demand Side Demographics**		
	Name	Target volume	Actual Volume	% Achieved			Volume	% Achieved
Occupation	Insurance Companies	9	8	89%	Occupation	Student	1	7%
	Insuretechs	3	3	100%		Trading	4	27%
	Support (non - distributors)	3	3	100%		General worker	1	7%
						Service industry	2	13%
						Unemployed	3	20%
						Microfinance	1	7%
						Association	2	13%
						Agric co -operative	1	7%
Gender	M		8	54%	Gender	M	10	67%
	F		6	46%		F	5	33%
Age range	Min		32		Age range	Min	22	
	Max		54			Max	47	
	Mean		39			Mean	36	
Level in Org	Middle Mgt		4	31%				
	Senior Mgt		10	69%				

Source: Author's research

4.3 Supply-side factors

In determining supply-side factors that influence microinsurance penetration in Zambia, the researcher gathered views from various providers: life and general insurance companies, InsurTech organisations operating in Zambia and non-distributors supporting the microinsurance industry, i.e., the insurance regulator and two non-governmental organisations. We present the findings from the extracted themes: distribution, products, premiums and claims administration, and exogenous factors, in the sections below.

- **4.3.1 Distribution**

As discussed in earlier chapters, distribution is a cardinal theme that has influenced microinsurance penetration in the theoretical and empirical literature. For the study, insurance companies and InsurTech organisations respondents were asked if they distribute insurance products and what successes and challenges they have experienced. The respondents were further asked if and how they have leveraged technology and partnerships in their model. Finally, the non-distribution providers were asked their views about the successes and challenges of the microinsurance industry. From the findings, it was clear that distribution is an essential factor influencing microinsurance penetration in Zambia.

A non-distribution partner articulated the importance of distribution as follows:

> *"Distribution remains the most important element of microinsurance; without the suitable mode of reaching customers, one cannot grow the industry.*"
>
> female, non-distribution provider, respondent 13

While the microinsurance industry is still in its infancy, various strides have been made in the distribution of solutions amidst experiencing some challenges in implementation.

> *"While the industry remains small, it has the potential to grow; some of the successes recorded in distribution include being able to cover almost one million farmers on agricultural insurance solutions and the institutionalization of the microinsurance TAG aimed at supporting the industry, especially in areas of capacity building, key for distribution*."
>
> male, non-distribution provider, respondent 12

Challenges highlighted by participants in the microinsurance distribution include physical and virtual accessibility between providers and customers. The challenges also extend to communications through text or other online channels.

"Most of the customers who need these products are in areas where we have no presence and therefore not able to reach them."

female, insurance company, respondent 2

"We have noted the language barrier as a key issue. Some people in the microinsurance market prefer to be spoken to in local languages, making it difficult for us as providers as we need to get translators to support the different localities to explain the product."

female, insurance company, respondent 3

"The inability to communicate due to local languages is a huge hindrance in this market. This challenge has further worsened the knowledge gap making distribution expensive. In addition, hiring translators or only focusing on the human resource that understands the local language in the area increases the administrative costs incurred by providers."

male, non-distribution provider, respondent 12

While issues of language barriers and limited providers' accessibility were not commonly cited independently in literature, Platteau et al. (2017) highlights high administration costs as an issue affecting suppliers, while Churchill (2007) stresses that aggressive awareness campaigns need to be spearheaded by the industry for microinsurance traction and product knowledge enhancement.

Two significant initiatives to support distribution include using partnerships and leveraging technology. We discuss the two sub-themes and their related findings in Zambia below.

- **Partnerships**:

The study findings indicate that all respondents directly involved in distribution mentioned working with third parties, indicating that the partnership model has been well adopted across the market. In addition, the results revealed that some of the joint partnerships used or considered for adoption include national and more minor associations such as marketeers, drivers, a chain store, miners, farmers groups, microfinance organizations, and banks.

Most of the respondents highlighted the importance of partnerships as an essential element of a successful distribution model of microinsurance. Some of the feedback is shared below:

"By working with member-based associations, we can reach more people aligned to the same objective and hence derive value better. Partnerships allow us to move the responsibility to the partners looking to add value rather than leave all the responsibility to the insurer. It is therefore cost-effective. However, for the partnership to be successful, there is a need for the

partners to see that they can benefit from this service—the type of partner selected plays a significant role."

female, insurance company, respondent 1

"Using the partnership model is cost-effective. We do not have to go out and visit far-flung places; we depend on the partners to do that for us in exchange for a commission. They manage their staff plus all other administrative work. In addition, we can reach more people where a partner is widely accessible."

male, insurance company, respondent 4

While partnerships have contributed to many providers' strategies, technical know-how challenges have been experienced with some distributors. Providers share some views below:

"We are solely dependent on the aggregator who links the customer in most cases. The lack of direct access limits our ability to know whether products are being sold correctly. The aggregator will dictate what information reaches the customer."

male, insurance company respondent 8

"While we continue to rely mainly on aggregators to distribute microinsurance, the technical know-how and depth on insurance are limited for a lot of them."

male, insurance company, respondent 4

" Our spot checks reveal that we still have information gaps with consumers, even after we have adopted train the trainer approach with our aggregators, so we have to work closely with them to ensure they are conversant with our products."

female, insurance company, respondent 2

De bock & Gelade(2017) highlighted how some of the distribution challenges could come as a result of low technical skills, with the problem amplified in the microinsurance market. This could further have a negative impact on the management of information asymmetry between providers and consumers, thereby affecting customer expectations. When providers were asked if they use 'tied agents' as a way of distributing microinsurance products as adopted in the traditional market, the majority of the respondents stated that it would be expensive to adopt the model in the microinsurance market owing to the low premiums charged to customers, which would translate to lower commissions for the agents. So instead, a few use a mixed approach combining field agents with other distribution options.

To complement our digital distribution model, we have stationed field agents in various localities to explain additional features to the customer. Additionally, as a post-sales service, our telesales agents randomly call customers on a special number regularly. Lastly,

we have included a call-back feature that allows customers to call back whenever they need more information.

male, insurtech organisation, respondent 9

This view was different to most of the respondents, with one stating the following:

The biggest challenge with using agents is that it increases costs for the insurance service providers making the channel even more expensive as we would need to factor the cost in the pricing.

male, insurance company respondent 5

Swiss Re (2010) recommended that providers finding low efficient cost models is key for distribution. In Zambia, partnerships are seen as a more cost-effective approach than the use of agents. As Minani et al. (2018) emphasised, using the partner–agent model in microinsurance distribution tends to have many advantages, and Akotey et al. (2011) further highlighted the importance of partnerships via a member-driven group that helps support the members' specific needs.

- **Technology**

The second sub-theme discussed focused on technology. Insurance providers were asked if they had adopted technology at any stage of their operation. The respondents unanimously agreed on applying technology in *some* of their operations. At an organisation level, almost half of the respondents acknowledged that they have begun using MNO platforms as a delivery channel for receiving premiums or payment of benefits in addition to traditional channels for bank transactions. In addition, the insurance providers mentioned that they found the use of MNO platforms to be more efficient in reaching most of the customers in the microinsurance market.

*We use MNO platforms for premium collections and claims settlements for this market. We have also been able to register more users easily on the product using USSD. In addition, we are currently developing an internal system to help with end to end processing***.**

female, insurance company, respondent 2

Innovation around onboarding clients, delivery of products and servicing of claims, would be ideal ways for the industry to leverage technology

female, non-distribution provider, respondent 14

A few insurance providers and InsurTech organisations have gone further by creating digital platforms for some key operations and storing essential KYC information.

We have begun to utilise tablets in our chain-store sales activities and are exploring additional cashless modes of payment. Self-service options are also in development.

female, insurance company, respondent 1

Technology is the way to go. If more players can design digital platforms to help with premium collections and information dissemination to customers, our success with mobile money can be translated to e-commerce for the microinsurance sector. A few things went wrong in the past, but there is potential if the structure is developed.

female, non-distribution provider, respondent 13

We are developing a system that will be available on smartphones and are working with technological partnerships to help us manage premium collections, claims processing and onboarding.

male, insurance company, respondent 3

For InsurTech organisations, which primarily depend on technology to drive usage of their products, all of them have developed electronic platforms to reach their customers.

We are using an electronic system containing USSD and mobile platforms, which makes most of our processes much easier, and allows us to maintain various KYC for future use.

male, insurtech organisation, respondent 9

We own a digital platform that we use for policy creation, premium collection, policy management, claims to process. The platform also has analytical capabilities and management dashboards for strategic decision making.

male, insurtech organisation, respondent 10

As highlighted by the microinsurance network (2020), the birth of InsurTech organisations has helped address some of the pain points around onboarding, collection mechanisms, and product design that many insurance providers were facing.

While technology has several upsides, it also comes with challenges, as highlighted in the findings below:

We constantly have to communicate through text messages with our customers. While text messages are cost-effective and an easier way of reaching out to our target market, we are limited by how much we can share due to the limited number of characters each text message can carry at a time.

male, insurtech organisation, respondent 9

In addition to using our platforms for our processes, we use the KYC data collected to send insurance educational information via text messages, increasing consumer awareness. Some of the challenges we encounter relate to our customers not always using the same number, making it difficult to know if our messages or communications reach all the intended parties.

female, insurtech organisation, respondent 11

Some of the challenges we have experienced with mobile technology in this market are the lack of trust by some of our customers who still prefer physical interactions because they are afraid of being scammed, as has happened with other services that have leveraged these platforms

male, insurance company, respondent 3

The biggest challenge with selling purely digital products like ours is that we are dependent on having good internet connectivity. However, in most places in Zambia, connectivity is relatively poor or non-existent, making it difficult for us to complete all processes on time. When that happens, we are forced to work offline, which increases turnaround time (TAT) and affects service delivery.

female, insurtech organisation, respondent 11

It was clear from all participants that technology is considered a critical form of distribution strategy. They are all looking at ways of ensuring that they can use it to improve their efficiencies, whether as a pre or post-sales activity. Zambia has adopted some of the models being used by other countries, as highlighted in literature by Platteau et al. (2017), Zualauga (2010) and Akotey et al. (2011), Ime & Ikechukwu (2017), all indicating the positive influence technology has had on microinsurance. Further, the examples shared in Chapter Two, Figure 7, shows how different providers have used mobile phones in various countries to provide insurance conveniently. Supporting infrastructure development such as roads and internet connectivity is vital to allow technology to play a significant role in growing the microinsurance sector, as stated by Prashad et al. (2014) especially as Zambia has a large population in rural areas. For technology to be successful and to manage elements of fraud at an industry level, insurance service providers need government support to jump-start digital financial service systems, as Cole (2015) has described. This could include establishing a national identification system that simplifies operations and reduces fraud.

While the drive to improve infrastructure will help advance technology, focusing on only one distribution mode is still sub-optimal, as Akomea et al. (2021) explained. The examples

shared in Chapter 2 on some of Ecolife and Yu Mobile challenges while offering pure digital channels indicate why a mix of physical and technology would be required for this market.

Since most products have to be offered cheaply, players cannot depend on brick and mortar only but would need to leverage on technology by going a step further and partnering with organisations who have a wider access to the community so that customers can access products using USSD.

male, insurance company, respondent 5

We realise the need to be more innovative to allow customers to access the solutions conveniently. We are looking to develop an IT platform that will be cost-effective. However, one can never really replace physical interactions, so we could use our face-to-face interactions to advance technological adaptability to the use of electronic platforms.

female, insurance company, respondent 2

- **4.3.2 Products, premiums and claims administration.**

The second theme under the supply-side centred on combining three elements: product development, premium management and claims administration. Questions posed to the respondents included establishing what products they offered, whether the provided products are mandatory or opt-in, and finding out some of the challenges experienced during product design. The questions also sought answers on the premium collection and perception that the microinsurance market has a low claims ratio in addressing the claims administration.

- **Products**

From the findings, most providers offer voluntary products. Common products distributed are a hospital cash-back or a funeral plan for life insurance products. For general insurance, agricultural products are commonly distributed, with other general insurance products offered on a smaller scale. According to the findings, an agricultural solution is provided as a macro solution and distributed through the government. Several insurance providers formed a consortium to share the risk. Credit life is offered on a mandatory basis, as in the traditional market by financial institutions. At the same time, for most standalone products, the product payer is the only insured party, except the funeral plan that covers the extended family. One of the responses that stood out is shared below :

We are currently offering term life cover and hospital cash plan valid for 30 days. Both solutions can be offered at a 'freemium' and are available to any customer. Premiums are embedded in the main cover. Customers can get additional benefits for an opt-in solution

that they pay premium for. Frequent interaction with the customer is key to remaining top of mind.

male, insurtech organisation, respondent 9

While almost everyone has an opt-in solution, not all agree that the providers should focus on driving opt-in solutions to grow the industry. Instead, some believe that offering a mandatory product will help build the necessary trust to purchase an opt-in on their own later.

The mass-market would be more responsive to an embedded solution at the moment than an opt-in solution. Doing that would also ease the premium collection challenges of the insurance companies.

female, insurance company, respondent 1

Almost all the respondents agreed that a hybrid solution, i.e. a combined general and life product would be attractive to customers.

Given a choice, I would love to add a life insurance product as a value-add to my general insurance solution because that would be relevant to my target audience. However, owing to licensing requirements, that is still a challenge.

female, insurance company respondent 2

Whilst there is a mixed reaction from different players around the best approach Leach (2012) in Prashad et al. (2014) provides some guidance as highlighted in Chapter Two, and some of the steps microinsurance models can follow. With microinsurance still in its infancy, considering a mix of embedded and standalone solutions while adopting various forms of distribution such as the use of technology and driving partnerships would enhance the visibility of the microinsurance industry as a whole.

When it comes to the underwriting of products, more providers are leveraging the expertise of InsurTech organisations to help with the product design of microinsurance products.

"We are positioned as an aggregator, so we create products for our partners, we can provide life, general, or composite solutions depending on what our partner, either on demand- or supply-side is looking for. From our experience, it always helps the provider if they understand their customer needs and then fund a solution for them, rather than offering a one-size-fits-all product. A few companies in Zambia have begun to tailor-make microinsurance solutions from the various products available."

male, insurtech organisation, respondent 10

When asked explicitly about some of the challenges experienced during product design, most respondents highlighted the lack of available historical and current data as a significant factor causing enormous challenges when developing products for the microinsurance market. Other challenges faced during product are also shared.

"The main challenge during underwriting is the availability of data. Not finding historical data and accurate GPS coordinates makes underwriting difficult."

female, insurance company, respondent 2

"Our biggest issue during product design is that certain material information is not readily available to us, causing some information asymmetry challenges. To reduce our anti-selection risk, our company has introduced a system that provides a database for customers and a platform allowing interconnection and interface of employees, which tends to be helpful during product design."

male, insurance company, respondent 4

"The lack of information and data makes the more traditional ways of underwriting difficult. The digital element of our business has allowed us to have much more information that we did not have before, especially now that regulation on KYC is mandatory in Zambia. With 80 percent of Zambians owning a mobile phone, morbidity and mortality are now easier to ascertain, especially when information is digitised. "

male, insurtech organisation, respondent 9

As discussed in Chapter Two, the Information Asymmetry Theory indicates that the unavailability of data or limited data makes it difficult to price or underwrite products accurately or correctly. Akomea et al. (2021) state that hidden facts, disinformation, and unwillingness to cooperate with insurers cause underwriting problems. The providers in Zambia need to build the required database to ensure that the pricing and design of products can correctly provide the necessary services for customers.

While anti-selection is a negative incentive mainly affecting providers, the IA theory also speaks to the negative incentive of moral hazard. However, from the feedback shared by respondents' moral hazard might not be very prominent in the Zambian microinsurance market. Most of the respondents highlighted the lack of experiencing an exponential volume in claims, while others mentioned that for certain products such as hospital cash plans, many parties' involvement makes it difficult to defraud. Lastly, the low payouts may make the extra work cumbersome.

"Moral hazard may not be too much of an issue for this market because the payouts are not very substantial for one to engage in fraudulent activities."

male, insurance company, respondent 5

"From our experience, most of our customers behave genuinely; we have had a few incidents of fraudulent submissions; therefore, the issue is not very common. Whatever the case, we have put in measures to proactively manage the cases as they come through to easily identify the fraud."

male, insurtech organisation, respondent 9

IA issues exist in Zambia, with anti-selection making product design difficult due to information availability challenges, negatively influencing microinsurance penetration. At the same time, the low volumes make it difficult to correctly assess whether the low volumes have an impact on the prevalence of moral hazard across the industry. Sepheri et al. (2006) show an example that mentions the negative incentive of moral hazard through the overuse of diagnostics and drugs and extended hospital stays. Lashley & Warner (2015); Prashad et al. (2014) encourage the use of technology to improve processes in remote areas and implement early detection systems to manage elements of fraud. To manage both types of IA, consideration should be made for group types of solutions, as highlighted by Beiner et al. (2012); Akotey et al. (2011) and assess the inclusion of adopting waiting periods[10]. In addition, several other challenges during product design were shared by some respondents, as stated below.

"It is difficult to balance the low premium expectations with the growth required to make premium viable."

female, insurance company, respondent 1

"The challenge during underwriting is to make the product as simple as possible to satisfy the market while still maintaining the technical elements of the insurance product."

male, insurance company, respondent 8

- **Premium Administration/Flexibility**

Premium administration is a sub-theme that incorporates processes around the premium collection and premium flexibility mechanisms applied in this market. From the findings,

[10] Waiting periods are commonly used in the traditional life insurance market as a way of managing moral hazard. During the waiting period, while customers may be required to pay premiums, only claims arising from accidental causes and not from natural causes are paid out.

many providers advised that premium collections were the most significant challenge providers faced due to the market's 'cash nature' and consumers lacking access to formal financial banking services.

"Most consumers in the microinsurance market do not have bank accounts, making the market very cash-driven and making commitments to regular payments difficult. This subsequently has led to high lapse rates on some products."

female, insurance company, respondent 1

As highlighted above, the lack of premium collections increases the lapse rates of most policies, further impending industry growth; the situation is made worse when the partner is not actively supporting initiatives to drive premium collection amongst its members.

"Having the right partner helps drive sustainable premium collections with less administrative work when compared to dealing with customers directly."

female, insurance company, respondent 7

"We tried to sell our products using member-based organisations, but we encountered a huge challenge with the premium collection. While it was agreed that we would collect premiums from their members each month, we noticed that not everyone was making payments consistently, and the arrangement collapsed."

male, insurance company, respondent 6

Other respondents shared alternative premium collection methods adopted in the microinsurance market.

"For us, issues of premium collections are not very pronounced as we have structured our solution so that premium remains affordable even when collections are done on an annual basis."

male, insurance company, respondent 4

"We have partnered with one of the MNOs and embedded the premium cost in the talk time purchased. Once a customer selects to purchase one of our products, we collect the premiums when they recharge. So there is no exchange of cash."

male, insurtech organisation, respondent 9

As highlighted in literature by Prashad et al. (2014); Akotey et al. (2011), Guha & Ahuja (2004), there is a need to find flexible ways of premium payment to serve the informal market, which should also consider the timing of premium collection.

- **Claims Administration**

Another sub-theme discussed was the application of claims management. As described in Chapter 2, efficiency in the claims process is a critical feature of a successful microinsurance solution. The participants were asked if simplier processes had been adopted in the microinsurance market. They were also asked to share views about the perception that the low claims ratio often seen in the microinsurance industry is as a result of providers charging more than the required price arising out of IA.

A few of the respondents spoke that they follow a simplified claims process for the microinsurance market when compared to the traditional market, however the majority of the respondents mentioned that most of the initiatives around claims have mainly been focused on improving claims TAT, and there is still some work required to balance the requirement of simplifying the documentation while managing the risk. In ascertaining whether IA could be impacted by the perception around the low claims' ratio in the microinsurance market, experiences shared by respondents were mixed. While a number of them agreed that they had experienced a low claims ratio, especially providers in the life insurance space, their counterparts offering general insurance products had, on the other hand, experienced a very high claims ratio over the years. The reasons for the status quo of the claims ratio was attributed to varied factors and not just one.

"I would attribute the low claims ratio to customers not fully understanding the claim process, therefore not being able to submit the required documentation for processing even when an event warranting a claim has been made."

male, insurance company, respondent 5

"We have experienced low claims ratio mostly due to inadequate product knowledge and next of kin not being informed by the policyholders that such a policy exists and so no claims are made."

male, insurance company, respondent 8

"From our experience, the claims ratio has neither been high or low. It has been middle ground primarily because we have been quite flexible. The traditional claims processes have struggled to work in the microinsurance market, so we worked with our underwriter to simplify our paperwork and processes. In my view, the key success of microinsurance should be a fair claims ratio; however, we still have much work to strengthen customer awareness around the claims process which I believe affects us all as an industry."

male, insurtech organisation, respondent 9

"For us, because we are offering an agricultural product dependent on weather patterns, we have experienced a high claims ratio over the years, so maybe the ratios could differ based on the product offered."

female, insurance company, respondent 2

While most of the providers agree that they have generally experienced a low claims ratio, most highlight customer awareness as one of the primary reasons for it. Chikalipah & Makina(2019) found that the low claims ratio could be a result of lack of customer awareness on the claims process, while it is possible, as shared by Garant et al., n.d that the low claims ratio could be a result of higher than required premiums, the researcher was unable to establish that from the discussions.

- **4.3.3 Impact of Exogenous factors**

Another theme that was reviewed was to understand whether exogenous factors impact the operations of the various providers on the supply side. i.e. factors *outside* their control. Participants were asked to state whether any factors had positively or negatively influenced them or had no effect on their work. The study focused on macroeconomic factors, regulation, and COVID-19.

- **Macroeconomic factors**

When it came to the effects of macroeconomic factors, all respondents agreed that most macroeconomic factors, particularly elements of inflation and exchange rate, are currently negatively influencing their participation in the market.

"High inflation and the kwacha's depreciation against major currencies resulted in higher transactions costs, especially around information technology (IT) related expenses."

male, insurance company, respondent 8

"The macroeconomic factors negatively affect providers as it leads to high lapse rates and non-continuance of policies by most consumers."

male, insurance company, respondent 5

"Higher inflation has also resulted in a lower value of the cash benefits made over some time for consumers who are meant to enjoy these products, as benefits are eroded by high inflation costs or high cost of inputs, thereby drastically reducing what they can benefit."

female, non-distribution provider, respondent 14

The thematic findings are similar to the studies conducted by PWC (2019); Ndurukia et al. (2017); Akomea et al. (2021), who highlighted the role economic conditions play in consumers' decisions to purchase insurance. In addition, Lim & Haberman (2011) mentioned how providers would see an increase in their operational costs.

- **Regulation**

The second exogenous factor that was looked at was the impact of regulation. Respondents gave mixed views on the impact of regulation in their operations. Almost a quarter of the respondents believed that the regulation had negatively impacted them. However, most participants are confident that the regulator has started to make the right strides and is providing the right support to influence microinsurance penetration positively.

> *"In the past, microinsurance was not fully appreciated. As a result, there was a regulatory vacuum for quite a long time, resulting in delayed approvals, negatively affecting product development."*
>
> female, insurance company, respondent 2

Despite the slow start, most agreed that regulation on microinsurance is progressing in a positive direction.

> *"While the Insurance Act 2021 is a step in the right direction, further clarity around its operationalisation will help microinsurance penetration. In addition, the waiving of formal insurance documentation requirements would also assist in increasing distribution in areas not primarily targeted by traditional insurance."*
>
> female, insurance company, respondent 1

> *"Supervisors often refer to proportionality when it comes to microinsurance; too much regulation could act as a barrier, while too relaxed regulation may not offer appropriate consumer protection*."
>
> female, non-distribution provider, respondent 14

Skipper & Klein (2000) and Llanto (2007) highlighted the importance of regulation in a successful microinsurance programme. Beiner (2014) even shares what details need to be contained in a successful legal microinsurance framework. These are definitions, pricing, product requirements and licencing. From the findings, Zambia has joined several countries to provide a legal framework to support the industry. However, some work still needs to be done to ensure successful implementation and avoid regulation being a barrier rather than an enabler.

- **Impact of COVID-19**

The third exogenous factor assessed in the discussion was whether the COVID-19 pandemic had negatively or positively impacted their operations. All participants agreed to the former. The main challenge brought out by providers was the inability to physically reach more people, which is critical for the growth of the microinsurance sector.

"COVID-19 has impacted us negatively as we cannot interact with the customers. As a result, we have had to slow down."

female, insurtech organisation, respondent 11

"COVID has impacted us negatively as we cannot undertake training, end-user engagements or sensitisation trips. In addition, it has caused more disruption primarily because we were so dependent on physical interaction."

female, insurance company, respondent 2

However, some providers said that COVID-19 also brought some positive elements:

"COVID-19 has changed the narrative to a certain extent; it has brought out more interest from the market about insurance. For our organisation, it has helped us think of digital enhancements to reach customers through adopting more virtual forms of communication, reducing some of our transportation costs."

male, insurance company, respondent 3

"We have had to think through how we can digitise our operations much faster, which I think is a positive step for us. We probably would not have moved this fast without the pandemic."

female, insurance company, respondent 1

These findings align with the microinsurance network study conducted and cited in Chapter Two. For the insurance service providers working with financial providers, the slow down resulted in fewer loans and reduced demand for mandatory products such as credit life. The Microinsurance Network Study on the impact of COVID highlighted the opportunity to ramp up on digitisation as one of the positive effects that have impacted the industry, similar to interventions made by Zambian market providers during the pandemic shown by the findings.

- **4.3.4 Stage of development**

Under the 'stage of development' theme, questions were related to the Ansoff Growth Model theory, which links new or existing products to new or existing customers, and places them in different quadrants. Additionally, providers were asked about the commercial viability of the microinsurance business model.

Most providers, including the InsurTech organisations, believe they are on a path of diversification and would fall under new markets' and ' new customers' when viewed using the Ansoff Growth model.

"The primary reason for the diversification is that for the Zambian market, microinsurance is untapped, so we now have an opportunity to offer solutions to a new target market while offering them new products, i.e. [products] can be composite. In contrast, the traditional market can only either offer life or general."

male, insurance company, respondent 8

Other reasons are based on the idea that different partnership and distribution models are being used in the microinsurance market.

"We are working on different partnership models in the microinsurance market that pits us differently against the traditional market, allowing for more leeway around technology and innovation in this industry."

female, insurance company, respondent 2

Other than diversification, over half of the distributors believe they can fit in the product development quadrant.

"We have been offering microinsurance for years. However, as we continuously evolve, we keep looking at ways to enhance our product offering to the existing market that is already accessing some of the solutions, especially for those who have accessed mandatory products such as credit life at a microinsurance level."

male, insurance company, respondent 4

This finding indicates that providers apply strategic planning in their decision-making and align with the Ansoff Growth Model discussed in Chapter Two. As a result, more providers are tapping into the microinsurance market with a different approach from their traditional business.

Some of the feedback around where they saw themselves commercially in the microinsurance market is shared below:

"It is hard for insurance companies to offer solutions strictly for commercial purposes in this market. What has, however, cushioned some of the expenses is the technical and financial support extended to us during our product development processes by developmental organisations."

male, insurance company, respondent 6

"While we believe there is a strong business case for microinsurance in Zambia, we have not reached a point where the returns are beginning to show in terms of gross written premium (GWP). We are therefore considering the microinsurance market as a long-term investment."

male, insurance company, respondent 5

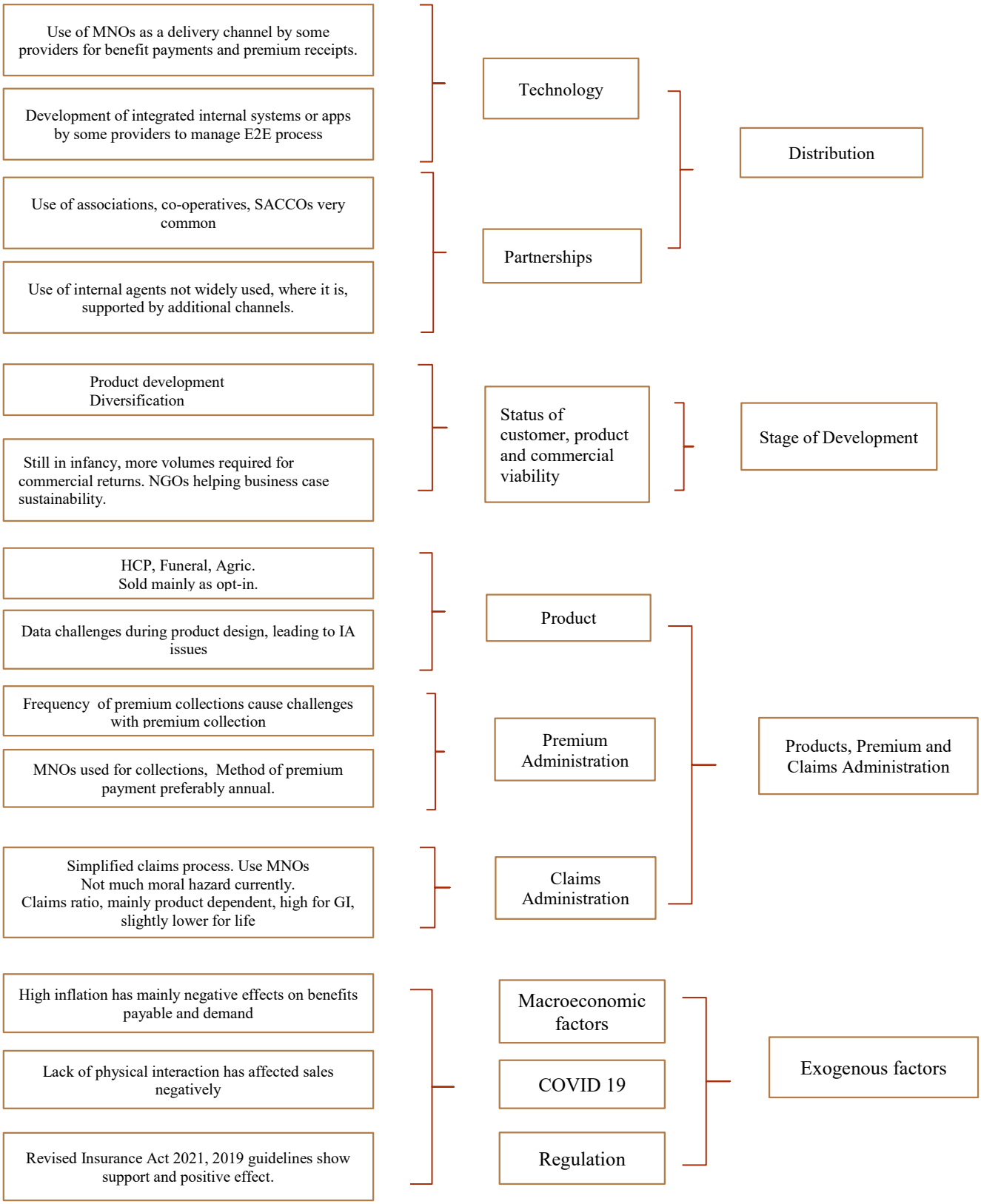
"The technical and financial support from cooperating partners has helped reduce costs in taking products to market."

female, insurance company, respondent 7

Mazambani & Matambara (2018), in their theoretical study, emphasised the need to avoid a mismatch between demand and supply factors to ensure the sustainable performance of the microinsurance industry. This balance will arise from focusing more on social benefits in the short term while aiming to generate long term profits for the firm. When it comes to supporting third parties, Yore and Walker (2019) mentioned that NGOs, donors, UN agencies, and organisations like the DFID create conditions for sustainability, allowing for a microinsurance environment that can thrive commercially. However, as indicated by literature, microinsurance is seen as a long-term investment, focusing on growing volumes more of the priority, a position Zambia is in now.

The data structure for the supply side factors influencing microinsurance penetration in shown in Figure 10.

Figure 10: Supply-side factors influencing microinsurance penetration



Source: Authors research design

4.4 Demand-side factors

In determining demand-side factors that influence microinsurance penetration in Zambia, the researcher interviewed individuals and organisations involved in the microinsurance market as consumers. This section presents the thematic findings on insurance knowledge, customer expectations, attitude towards risk, and exogenous factors.

- **4.4.1 Insurance Knowledge**

In terms of insurance knowledge, questions asked to participants focused on understanding what solutions they had purchased from the providers and what they knew about the insurance industry. From the discussions undertaken with the respondents, the lack of consumer awareness was an issue that affected the demand for insurance for most of them. The majority of respondents expressed the need for more sensitization around insurance. The level of understanding was also seen as a bigger issue. The non-distribution providers who provide both demand and supply side interventions also shared their views about insurance knowledge.

"Many people in my community are not aware of insurance. Hence, more sensitisation is needed so that more people can know more about it."

male, trader, respondent 1

"Understanding insurance is still a problem; we need more information."

male, unemployed, respondent 5

"Customers have very little, if any, knowledge about insurance. Essentially, this is due to a lack of sensitisation activities by insurers, regulators and other players in the insurance industry."

male, commercial banker, respondent 15

"Insurance companies need to do more around sensitisation. While virtual experiences may not work for groups like ours, marketing can be targeted around roadshows to increase mobilisation and attend group member meetings with a direct interface with the community."

male, agricultural co-operative, respondent 12

Some cultural beliefs and the level of financial literacy also impact awareness around insurance.

"Most people I know refuse to sign up, saying it is bad luck and would not be willing to sign up for products that only payout in the event of death or accident with no immediate benefits. Unfortunately, that perception results in many people not seeing the need to buy the product."

female, service, respondent 8

"The level of literacy also matters. The more literate someone is, the more likely they will understand how product benefits work."

non-distribution provider, respondent 12

"While the providers may explain the product's features, the lack of financial literacy around insurance still negatively impacts the people who purchase the product. For example, even when the terms and conditions of the product do not allow for benefit payments, e.g. funeral products, most people still expect some form of benefit to them after some time."

female, savings group, respondent 14

"The challenges around insurance knowledge is one of the most significant issues affecting demand. A few things need to happen. Firstly, we need to get more testimonials to make people understand and get them insured. Secondly, insurance demand will depend on how information is being assimilated, regardless of education."

female, non-distribution provider, respondent 13

The lack of insurance awareness and product knowledge is also highlighted as factors influencing microinsurance demand, as shown by various literature. Manik et al. (2017); Gerkhe (2014); Akotey et al. (2011); Geisbert and Steiner (2015); Finscope (2020); Finscope (2018) Literature also refers to the importance of continuous education as shared by Savitha & Kiran (2012); Mccord (2008). The focus should also be placed on those with low literacy levels, as Giesber & Steiner (2015) shared. Some of the respondents also mention how financial literacy helps understanding insurance as highlighted by Eling et al.(2014); Churchill (2007)

- **4.4.2 Impact of Exogenous Factors**

- **Macroeconomic factors**

When asked about the impact of exogenous factors affecting their decision to purchase insurance products, all the respondents mentioned the macroeconomic factors had a bearing on the demand for insurance as they impacted their ability to afford the premiums and erosion of their benefits.

"It has been challenging to be consistent, primarily since we have not managed to get any increments even where I work, so I have had to discontinue paying for some things, and insurance is one of them."

female, service industry, respondent 8

However, for others who have applied flexibility in their operations, the impact of macroeconomic changes has been minimal. They had this to say:

"While we have seen a generally low demand for all products due to macroeconomic factors such as inflation, there is very little effect on our customers. The products we sell have very minimal premiums paid only once every year."

female, microfinance, respondent 13

From the findings, macroeconomic factors have negatively affected most consumers' insurance decisions. As stated in the literature, Ndurukia et al. (2017); Alhassan & Biekpe(2016) macroeconomic factors impact consumers' decisions. If the indicators were more positive and increased income, demand for services such as insurance would increase. It may be possible to cushion the impact of macroeconomic factors if more providers consider alternative ways of paying premiums.

- **Impact of COVID-19**

When responding to the effects of COVID-19, a number of the respondents have been impacted negatively, with some losing their jobs and income. At the same time, a few stated that COVID – 19 has not had any impact.

"We have noted a slow-down in loan requests since the advent of COVID-19 but also saw an increased demand for opt-in microinsurance products during this period, with more people interested in protecting themselves."

female, microfinance company respondent 13

"COVID-19 has made it hard for me to pay for premiums because I lost my job. I do try to cover up missing months whenever I can, but it has generally been difficult without a lack of income."

female, unemployed, respondent 7

"I can still undertake my business without any problems because I work directly in the community even during the COVID – 19 pandemic; this has allowed me to continue paying my premiums."

female, trader, respondent 3

COVID-19 has also impacted some consumers microinsurance demand indirectly:

"We have been unable to undertake sensitisations with our members in various communities owing to the COVID-19 pandemic; this has affected demand for savings and insurance products because we reach our members mainly through physical interactions."

female, savings group, respondent 14

As highlighted in the Microinsurance Network (2019) study and reviewed in earlier chapters, COVID-19 has impacted consumers' demand for financial products, especially insurance.

- Regulation

The majority of the respondents stated that there are unaware of any regulations regarding insurance, hence did not provide any comments.

- **4.4.3 Customer expectations.**

Under 'customer expectations', questions put related to how respondents understood the claims process, the benefits expected, and the level of trust in the insurance company. We look at each of the sub-themes based on respondents' feedback.

- **Claims Process**

Most customers who have had an experience with the claims process expressed some level of satisfaction, with over half of them stating that they found the process straightforward.

"I found the claims process easy"

female, unemployed, respondent 7

"I was very happy with the claims process, I just did what I was asked, and the next thing, I received the money."

male, trader, respondent 2

"Some of our customers are happy with no issues when everything is explained clearly during the claims process."

female, microfinance company, respondent 13

However, not everyone felt the same way, with a few expressing displeasures by stating that they found the process complicated, requiring too much paperwork and that the period was too long:

"I used to have an insurance product; however, I was frustrated with the claims process because they requested too many requirements. After that experience, I stopped paying premiums. I do not think I can repurchase insurance cover because I doubt that the insurance company pays claims when due."

male, salaried, respondent 4

"I found the claims process complicated. They need to make processes clearer to avoid inconveniencing us."

male, unemployed, respondent 9

As earlier chapters indicate, the claims process plays a crucial role in customers' expectations. Minani et al. (2018) found that almost 90 per cent expressed dissatisfaction with the claims process. Simon et al. (2014) emphasises that delivering promises by demonstrating benefits is vital for microinsurance during the claims process. Akotey et al. (2011) also list the prompt payment of claims as a significant factor affecting demand, while Chuuman (2017) found that managing the claims process showed an excellent reliability factor.

- **Benefits Expected/Value of Microinsurance**

Findings reveal that perceptions around expected benefits were interlinked with product knowledge for some respondents. Most of the issues shared by the respondents emanated from a lack of understanding of the insurance terms of the product purchased by the customer.

"I did not understand the product well at the time of buying. I only realised how the product worked when I submitted a claim."

female, trader, respondent 8

"I do not understand the benefits; someone needs to explain them."

male, student respondent 11

"While the person who sold me, the policy explained how it works, I received lower than expected benefits when I made a claim. As a result, I have just stopped paying the premiums."

male, trader, respondent 10

Some other respondents mentioned that they understood and were happy with the benefits:

"I am very happy with this product; I always try to pay my premiums to ensure that I am covered at the maximum amount possible."

male, trader, respondent 2

However, some highlighted the need for the products to have enhanced benefits that allow them to access insurance for most life events:

"While the benefits are good, they only pay in an accident or death; however, so many things happen in life, and unfortunately, one cannot fall back on insurance to provide the necessary protection, so I am not fully satisfied."

male, service, respondent 6

"Some customers request additional features on the product. For instance, they would like to add children on a hospitalisation cover as they are the only ones covered. In contrast, on the funeral product, some would say the benefits for the children are very small, so changing or continuously making updates to the products would be very useful to insurance customers."

female, microfinance company, respondent 13

"It would add some value if the benefits included additional offerings such as medical insurance to provide some level of cover to the farmer."

male, agricultural cooperative, respondent 12

From the findings, customers who were provided referral incentives often used word-of-mouth to encourage their friends and family to buy insurance.

"I am aware that I can get incentives if I make referrals on this product. It is difficult to convince people, but I share my experience, some respond. However, other's do not, but I am happy I get something for those I inform."

male, trader, respondent 2

"I am told the company gives incentives when I provide referrals; I am very interested in that program."

female, unemployed, respondent 7

- **Trust in the insurance company**

When asked about the level of trust they had in insurance companies, most of the respondents felt they did not trust insurance providers; some respondents mentioned that the lack of confidence emanated from the negative experiences of others. In contrast, others were exacerbated by their own negative experiences:

"I currently do not have an insurance product because of the bad experiences I have heard from others."

male, trader, respondent 1

"Some customers' experiences with insurance service providers have impacted insurance demand from us as an organisation. Therefore, we go into the market using our name, which comforts our customers when purchasing the products."

female, microinsurance company, respondent 13

"Most customers believe that insurance companies do not fully disclose the terms and conditions for the products. Hence, customers do not want to enter into a contract without fully understanding the terms and conditions."

male, commercial banker, respondent 15

"Many of our members have had issues with insurance companies personally. This has affected how they view insurance for their business. Insurance companies must learn from past experiences and other players to improve the industry and change how they offer products to the mass market."

male, agricultural cooperative, respondent 12

"In my opinion, I have noticed that most of my members in the savings groups respond better if insurance is offered through us, insurance companies should leverage member-based organisations and follow up discussions with their members."

female, savings group, respondent 14

"Based on the experience I have heard from other people; insurance companies take time to pay claims. However, insurance is difficult to understand, so I worry they may not deliver promises."

female, trader, respondent 3

The findings reveal the importance of word of mouth such as testimonials from existing customers play a crucial role in demand. Additionally, providing incentives, whether through branded items or member get member initiatives, would further help drive demand, as Matambara & Mazambani (2018) highlighted.

- **4.4.4 Attitude towards Risk**

Regarding attitude towards risk, respondents were asked why they purchased or would purchase an insurance product to understand if they would be driven by utility or loss aversion. Some of the findings speak to experiences around why the respondents purchased the insurance. According to the findings, respondents purchased a microinsurance product to be provided peace of mind.

"*My salary is relatively small, these things are unknown, so I purchased cover to ensure that I am covered in case of anything".*

male, salaried, respondent 4

"After seeing my friend being helped when she had an accident, I decided to get insurance because I had seen that insurance is helpful."

female, unemployed, respondent 7

"Life is unknown, so the cover helps in times of uncertainty."

male, service, respondent 6

Some respondents who purchased mentioned they were motivated to buy as they were worried about the worst outcome or were involved in an experience that allowed them to see the importance of insurance.

"I was involved in a car accident while enjoying the free cover. When I submitted a claim, something was paid out. So, I decided to purchase the opt-in cover, which had more benefits to ensure that I should be covered when something like that happens again."

male, student, respondent 11

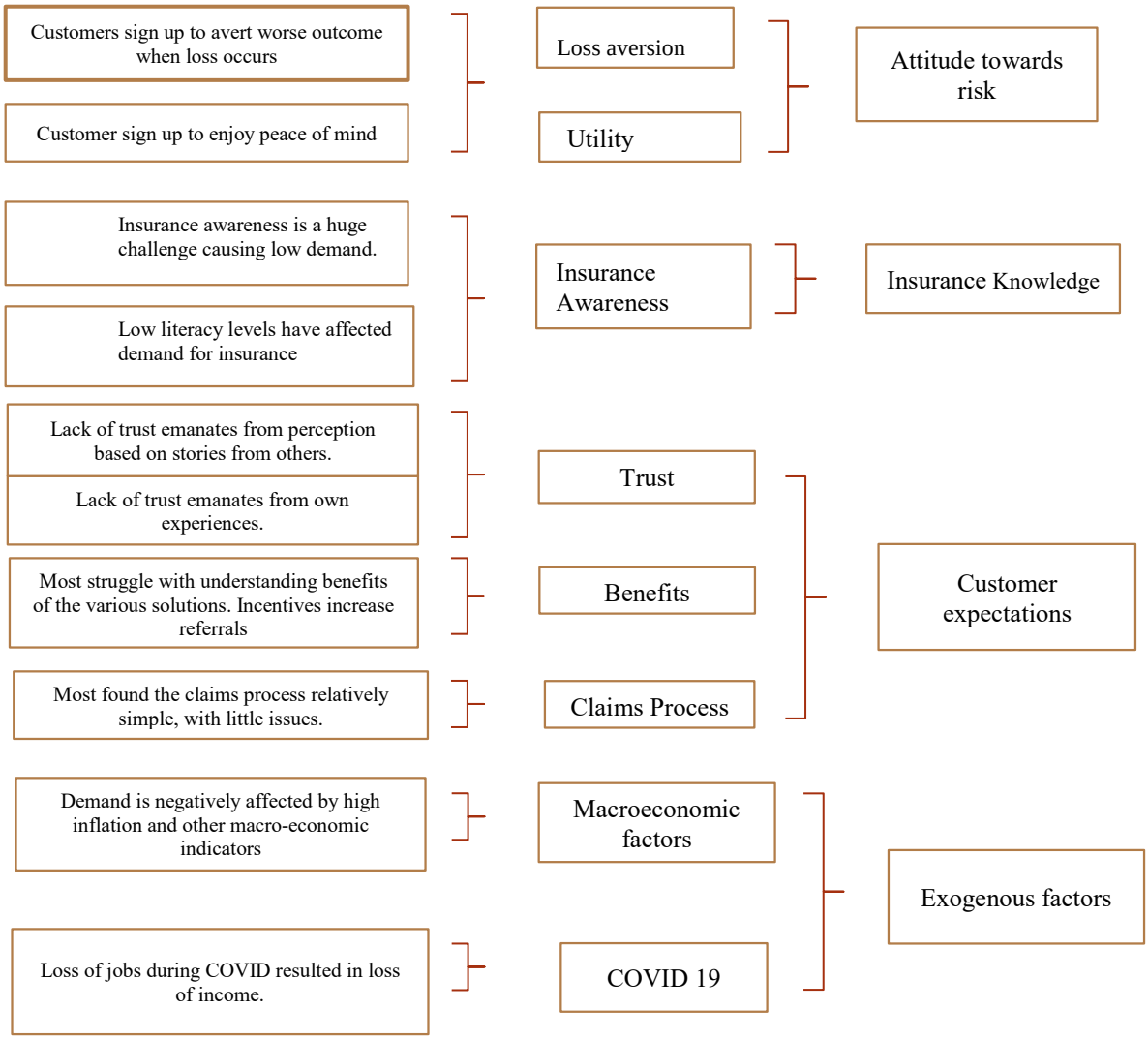
"Among our group, very few have purchased insurance for their farming activities. Most of the products available do not fully absorb the risks that we face. For example, one of the solutions offered to us farmers entitle us to receive 'in kind' benefits even when losses are made across the entire harvest. However, we fear that our investment in the soil cannot be compensated when unforeseen events occur."

male, agriculture cooperative, respondent 12

From the discussions, while the majority of the respondents purchased insurance products for 'peace of mind', a feature according to the EUT that makes insurance valuable, it was clear that many of the respondents were not looking at either the utility, or loss aversion, through one lens, and that they are varying underlying theories that explain insurance decisions not explained in this study. Dror (2018) 's alternative view of 'a group consensus' also came out as an option as respondents mentioned a culmination of other factors such as trust, perception, and customer expectations that have influenced how they viewed insurance. Dercon et al. (2011)'s view shows how some theories may be unattractive for some risk-averse consumers, especially where payout does not fully cover losses or where basis risk is high exists from our findings, further bringing to the fore that there is a mixed view in interpretations of the theories reviewed.

Figure 11 provides a visual summary of the data structure of the themes extracted from the interview data as the demand side factors influencing microinsurance penetration in Zambia.

Figure 11 : Factors influencing microinsurance penetration – Demand Side Findings



Source: Authors research design

CHAPTER FIVE

Conclusions and Recommendations

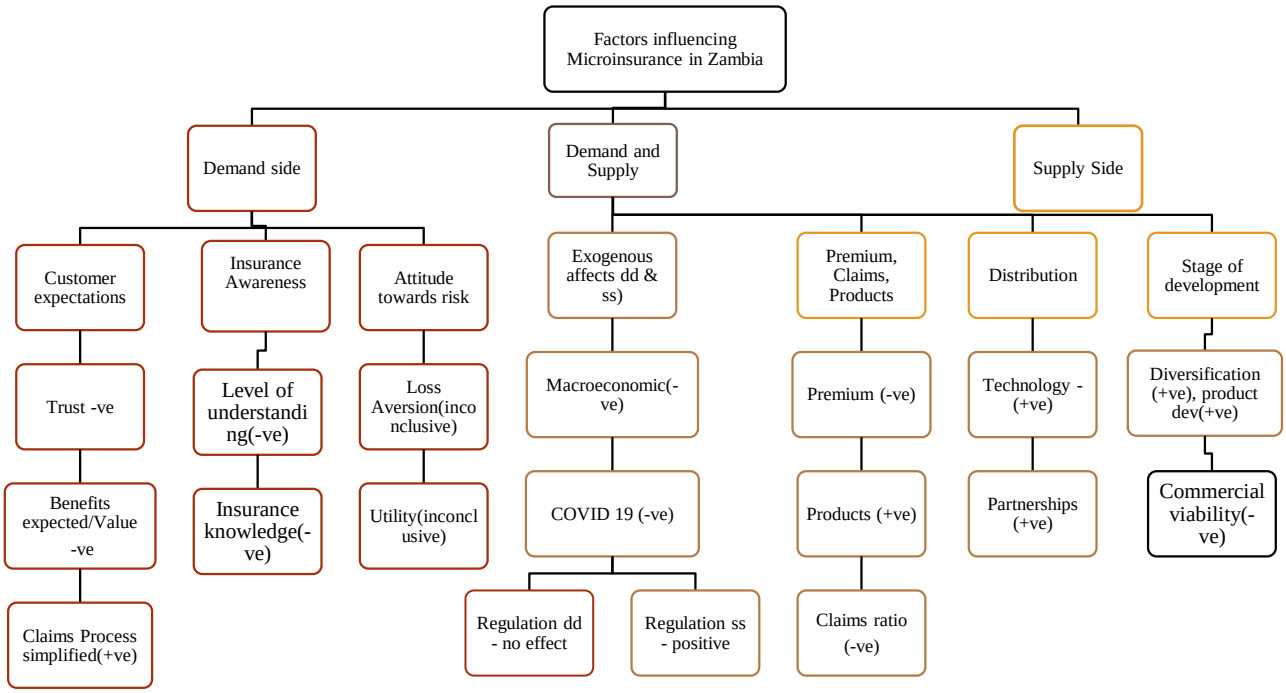
5.1 Introduction

This chapter provides a detailed summary and conclusion of the study. The chapter also provides recommendations that the microinsurance industry may adopt to partake in economic growth and financial inclusion. Finally, some limitations will be shared.

5.2 Summary and conclusion of the study

The primary study objectives have been to understand the factors influencing microinsurance penetration in Zambia from a supply- and a demand-side. Using interviews as the main form of data collection, the study used a sample of fourteen participants on the demand-side and fifteen participants on the supply-side to understand their experience with the microinsurance market. Thematic analysis was used to analyse the data. A visual summary of the findings of the supply and demand factors including whether they have positively or negatively influenced microinsurance penetration is highlighted in Figure 12 below.

Figure 12: Flowchart showing findings of demand and supply factors influencing microinsurance in Zambia



Source : Author's research design

Notes to figure

-ve finding shows factor has a negative influence on microinsurance penetration in Zambia	+ve finding shows factor has a positive influence on microinsurance penetration in Zambia
Inconclusive shows research was unable to determine influence	Dd : demand, ad : administration,ss : supply

- **5.2.1 Supply-side**

Drawing from the different experiences of insurance providers on the supply side, whether directly involved in the distribution or not, some of the factors that have positively influenced the providers include improvements in distribution that have allowed them to leverage technology, improving operations efficiency. While all the respondents agreed that the partnership model is a preferred model of distribution compared to the traditional use of tied agents, most insist that aligning objectives with the third party is key for the success of the partnership model. Technology and partnerships have come with some challenges due to a lack of supporting infrastructure in certain areas: poor internet connection and poor road networks, making it hard to reach potential clients. Language barriers and the technical know-how of some third parties also affect reach.

Other than distribution, the study also reviewed the operational strategies on the supply-side, including elements around premium, product, and claims administration. Key highlights from this factor are the positive strides made in product development, with more providers exploring opt-in solutions and not restricting themselves to mandatory solutions. However, due to the unavailability of historical information in the microinsurance industry, information asymmetry continues to pose challenges in the correct design and pricing of the products, thereby negatively influencing most providers' participation. In addition, the 'cash nature' of the microinsurance market makes it challenging to balance the affordability, simplicity, and flexibility required for the product to succeed.

When we review the claims administration, particularly around the low claims ratio in the microinsurance market, the influence here is mixed. While most providers admitted that they had experienced a low to medium claims ratio, the majority attributed it to consumers' lack of awareness of the claims process. However, with the current low uptake and most providers still in the early stage of distributing opt-in solutions, it is possible that the low claims ratio could

be due to information asymmetries stemming more from anti-selection, a key IA issue on the supply side. Most providers still need to simply claims documentation.

Exogenous factors were also found to be influencing microinsurance penetration. The insurance regulatory framework around microinsurance has improved over the years, thereby positively influencing providers participation in the market with improvements such as the 2019 microinsurance guidelines and the 2021 Insurance Act. On the other hand, macroeconomic factors of inflation and exchange rates affect microinsurance as demand for insurance has dropped as consumers struggle with cash flows, with benefits eroded in value. COVID-19 has been another factor that has negatively influenced microinsurance penetration on the supply-side. Many providers could not physically reach out to their customers, damaging their ability to conduct the necessary education and sensitisation required for microinsurance distribution. Despite many business operations being conducted virtually in many sectors, the transition in the microinsurance market was much slower due to the unavailability of infrastructure and technological advancement required for such models to operate efficiently. However, the COVID – 19 pandemic fast-tracked digital enhancements, with many providers having to *think outside the box* in reaching out to their target market.

Lastly, using the Ansoff – Growth Model, we reviewed the stage of development at which most providers seem to have reached in Zambia in the microinsurance market on the supply-side. Using the theory, most providers would appear in the diversification quadrant. This is because they target a new set of customers while offering a new type of product allowable by law, i.e. composite solutions unavailable in the traditional insurance market. The use of third parties, including InsurTech organisations and member-based associations, is another reason most providers fit in the diversification quadrant. On the other hand, some providers would fall in the product development quadrant as they have more experience offering solutions to the low-income market, therefore, having an opportunity to offer additional new solutions to existing customers. The other factor the study focused on under the stage of development was where most providers were in terms of the commercial viability of microinsurance. For many, the volumes are not yet at the level that gives them a sustainable return on investment(ROI), and more needs to be done to generate revenue. Most providers are also leveraging the financial and technical assistance from non-governmental organisations to subsidize some of the costs incurred and allow them to develop sustainable business cases. With all the efforts and

interventions being made, the stage of development is positively influencing microinsurance penetration in Zambia.

- **5.2.2 Demand side**

The study's second objective was to understand the factors influencing microinsurance penetration in Zambia on the demand-side.

There was a consensus from consumers and insurance providers that insurance awareness is still a challenge in microinsurance, negatively influencing penetration in Zambia. Some of the reasons attributed to the lack of insurance knowledge include a limited understanding of insurance terms by many stakeholders in this market and a lack of targeted marketing activities that consumers in the low-income market would respond to, such as roadshows. While several individual providers are using different marketing tools to reach their target market, more will need to get involved to achieve better impact. In addition, overall financial literacy was required to ensure that consumers understand how insurance fits into their comprehensive financial plan.

Consumer expectations is another factor that was reviewed on the demand-side. The reviewed customer expectations were based on Akotey et al. (2011) outline, including benefits expected, claims processing, and trust. While positive feedback was received around claims processing, there was generally negative feedback around benefits expected and trust. From the findings, most customers had very few issues around the claims process. Many stated that the approach was flexible and relatively easy. However, most respondents did not seem to fully understand the benefits while others were not satisfied with the benefits when it came to expected benefits. Several respondents did mentionthey wanted the products to extend to more beneficiaries. Lastly, trust was a factor discussed under customer expectations. Most of the respondents generally had a negative perception about insurance stemming from their own bad experiences or the experiences of others.

Another factor reviewed on the demand side is consumers' attitude towards risk. The factor was based on two theories, i.e. loss aversion and expected utility theory, to understand how decisions are made about purchasing insurance. Responses were mixed. While most of the respondents purchase insurance to enjoy peace of mind, they are concerned about other factors that neither theory takes into consideration. It was clear from the discussion that a combination

of theories will need to be used to understand customer behaviour and include other elements such as trust, understanding of the products etc to correctly determine attitude towards risk. The study was therefore not able to correctly ascertain influence, and hence inconclusive.

The fourth and last factor reviewed was the impact of exogenous factors. Three factors were reviewed: regulation, macro-economic indicators, and COVID – 19. Macroeconomic factors were negative because of the reduced benefits value and high cost of inputs. COVID – 19 negatively influenced microinsurance penetration because a few respondents lost their jobs while demand was less because incomes were also negatively affected. Regulation did not affect many consumers, with many showing ignorance about it.

5.3 Recommendations

The study's primary objective was to understand the factors influencing microinsurance penetration in Zambia. The findings have revealed that some factors positively influence both supply and demand, and some factors negatively influence demand and supply. Emanating from the findings, the study makes the following recommendations for players in the microinsurance industry.

Strengthen partnerships: Insurance service providers (ISPs) must continue working with third parties to drive microinsurance products and services usage. However, value-driven alliances need to be created to appreciate what the other party is bringing to the table. This will require tailor made value-added services specific to the groupings for member-based organisations.

Enhancement of insurance awareness: Product knowledge is one of the biggest challenges the industry needs to overcome. The industry will need to come together and intensify consumer education on the importance of having insurance. The institutionalisation of TAG will play a key role in bringing all stakeholders together to fulfil this plan. With the power that word-of-mouth has in the microinsurance market, using testimonials as referrals from existing customers could be a strategic marketing technique that assists drive the necessary awareness and improving customer expectations. Insurance service providers should find a way of incentivising customers regularly for better engagement. In addition, further awareness needs to be part of the overall financial inclusion agenda of savings and investment for consumers to appreciate how the risk management framework fits in**.**

More insurance providers and products need to come on board at all levels: For microinsurance penetration to increase more insurance providers need to tailor their products and services for this un(der) served market, especially since microinsurance is a volume-driven business. They may be need for providers to consider embedded solutions with low premiums and benefits to encourage consumers to have experience with the solutions. With the growth in influence of InsurTechs, Zambian providers need to leverage their expertise to support distribution, underwriting, and premium administration initiatives. While we have a handful working in Zambia, many more are required. Lastly, products other than funeral policies need to extend their family coverage.

Infrastructure support: Poor internet connectivity and the substandard road network will hamper most products' reach. Even as we strive for technological enhancements, physical interaction in this market is essential. It should still be encouraged to see growth. Therefore, the government needs to come in and support organisations that can provide the necessary 'soft' infrastructure and work to improve the road network in many rural areas where insurance products are much needed.

Centralized database: Information asymmetry is a challenge that affects product design and uptake. It will require providers and organisations such as TAG to build the necessary database to make it easier to design and distribute products more effectively. In addition, the correct data analytics tools will help providers manage the risks that may come forth in the long run. Further, the Pensions and Insurance Authority(PIA)needs to enhance monitoring of the microinsurance business by giving an industry view in its reporting parameters.

5.4 Limitations and recommendations for future research

Some of the study's limitations included the unavailability of statistical information on microinsurance at the industry and company level. In future, quantitative research should be undertaken to delve deeper in understanding—microinsurance growth in Zambia. Further research can also extend to understanding technology's effect on microinsurance growth.

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APPENDIX 1 – Questionnaires.

Master of Commerce in Development Finance
INTERVIEW/SURVEY CONSENT FORM

Participant name:

I volunteer to participate in a research project conducted by **Perpetua Siloya** as partial fulfilment of the requirements for the **Master of Commerce in Development Finance Degree** at the UCT Graduate School of Business. I understand that the research is designed to gather information about **Factors influencing microinsurance penetration in Zambia** and that I will be one of approximately 35 people interviewed.

Objective(s) of the research
To identify the demand side factors that influence microinsurance penetration in Zambia
To identify the supply side factors that influence microinsurance penetration in Zambia

Ethics approval
The ethical clearance for this study was approved by the UCT GSB Research and Ethics Committee on 7th July 2021.

Participation and confidentiality
I understand that my participation in this research is voluntary, that I will not be compensated and that I may withdraw at any time. The interview/survey will take approximately 30 minutes to complete and will be audio recorded **where necessary.**

I understand that I will not be identified by name in any reports using information obtained from this interview and that my confidentiality as a participant in this study will remain secure. Subsequent uses of records and data will be subject to standard data use policies which protect the anonymity of individuals and institutions.

Should you have any questions or concerns please contact me on slyper001@myuct.ac.za or my supervisor Associate Professor Latif Alhassan; latif.alhassan@uct.ac.za

Consent
I consent to participate in this interview, based on the terms outlined above and subject to the following additional condition of my own (if any).

---------- ----------
Signed by interviewee **Date**

Signed by candidate

Signed by student

Questions – Demand Side

Section B1: Demographic information

1. Gender of respondent:
2. Age of respondent :
3. Nature of business :
4. Years of experience :
5. Current role in business :

B2. Have you purchased any microinsurance products (for individuals)? Do your customers purchase microinsurance products(for organisations)

Response :

B3. If yes to B2.

a) What is the name of the product/products that you or your customers(for organisations) purchase?

b) What is the name of the Underwriting Insurance Company :

c) How did you/customer(if organisation) purchase the product? Answer :

d) What mode of payments is used for premium collections:

B4. If organisation : What are some of the challenges you experience when distributing the product to your customers? Are you conversant with Insurance and product purchased? Response :

B5. If organisation : What are some of the expectations from you/ your customers once they purchase the product?

a. Trust of insurance companies :
b. Expected benefits :
c. Claims process….

B6. Do other factors outside your control influence your decision/ your customers to purchase insurance state whether positive or negative and please elaborate your answers.

i) macroeconomic factors …… reason :
ii) COVID 19…….reason :
iii) Regulation……reason :

Questions – Supply side

Section 1: Demographic information

1. Gender of respondent:
2. Age of respondent
3. Nature of business
4. Years of experience
5. Current role in business

Section 2: Interview/Survey questions

A. Supply Side Factors – Interview questions

A1. What type of insurance business are you in. Tick one option

- General Insurance
- Life Insurance
- Regulator
- Aggregator
- NGO
- Other(kindly explain)…….

A2. Is your company involved in the microinsurance market?

Yes No.

If answer to A2 is yes, and are involved in distribution of microinsurance.

A3.a) What distribution channels are you using in the microinsurance market?

b) what challenges do you face, if any, with the distribution of products to this customer segment?
b.i if using/not using agents? Explain why?

c) what products are you offering in the microinsurance market? Please also state whether the products are opt -in(standalone) or embedded(mandatory with another product)

d) from an underwriting perspective what are some of the challenges you have faced when designing products and services in the microinsurance market?

e) are you leveraging any technological innovations in any of your premium's collections or engagements with customers?

A4. How do some of the exogenous factors i.e factors out of your control, impact your work?

i) Macroeconomic factors e.g inflation: negative positive no effect

State reason :

ii) regulation negative positive no effect

State reason :

iii) Impact of COVID 19 negative positive no effect

State reason :

A5 Have would you categorise your claims ratio? What is your view around the perception that the microinsurance industry generally have a low claims ratio. Please qualify your Response :

A6. In what areas do you think technology will play a part in the microinsurance industry?

Response :

A7. Where would you categorise your company in terms of status in the microinsurance industry.

i) Market Development(new customers, existing products)

ii) Product Development(new products, existing customers)

iii) Diversification(new products , new customers)

Any other comments :

End. Thank you for your time. Please note that your responses will be kept in the strictest confidence.

If answer to A2 is yes, but not directly involved in distribution of microinsurance products.

A3.a) What type of support do you provide to the microinsurance industry?

Answer :

e) In your view, what are some of the issues affecting suppliers of microinsurance at either underwriting or distributor level?

Answer :

f) Are insurance companies offering more of embedded or voluntary products? :

A4. Where do you see the market for microinsurance market life/general/specific?

g) Are they any notable successes that have been recorded on the supply side of microinsurance? Can provide more than one below.

Answer :

h) What are some of the challenges being faced on the demand side of microinsurance, i.e from consumers.

i) Are they any successes?

A5. Is there potential for the microinsurance to leverage on technology, if so in what ways could that improve the industry?

Answer :

A6. How do some of the exogenous factors affect the microinsurance industry?

i) Macroeconomic factors such as inflation: negative positive no effect

State reason:

ii) regulation negative positive no effect

State reason :

iii) Impact of COVID 19 negative positive no effe

State reason :

A7. Have would you categorise your claims ratio? What is your view around the perception that the microinsurance industry generally have a low claims ratio. Please qualify your answer:

A8. Any other highlights/issues you would like to highlight about the microinsurance industry that could be useful to this study. Answer :

Thank you for your time. Please note your responses will be kept in the strictest confidence.

APPENDIX 2 – Sustainable Development Goals

Source : https://sdgs.un.org/goals