



ICMIF country diagnostic report on mutual and cooperative microinsurance in Kenya

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Naitiri Dairy Farmers Association
Index-Based Livestock Takaful
The Githunguri Dairy Farmers Co-operative Society
Kipkellion Coffee Cooperative
Muramuki Coffee Cooperative

ICMIF

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FOREWORD

We are pleased to present the International Cooperative and Mutual Insurance Federation's (ICMIF) country diagnostic study on the landscape of mutual and cooperative microinsurance in Kenya, prepared in partnership with CIC Insurance Group (CIC) and Takaful Insurance of Africa (TIA). This is a very timely report, considering the rapid growth of the microinsurance market in Africa in recent years.

The provision of insurance services to low-income people enables them to better protect themselves against the risks and vulnerabilities they face in their everyday lives. In Africa, the microinsurance market is still in its early stages of development. The microinsurance landscape in Kenya is characterised by insurance companies, microfinance institutions (MFIs) and banks. This study sheds light on some of the innovations in product structure and distribution channels which exist in the Kenyan market. The study also identifies concerns on the lack of regulation and higher transaction costs, which seem to be the critical bottlenecks preventing substantial growth of the sector in the country. Overall, the study reveals the opportunities and scope for the future development of the microinsurance market in Kenya.

This study on Kenya is the third in a series of diagnostic reports on the landscape of mutual and cooperative microinsurance in an emerging market conducted by ICMIF, and follows diagnostic reports on both India and the Philippines.

These studies are conducted as part of the ICMIF 5-5-5 *Mutual Microinsurance Strategy* which demonstrates ICMIF's commitment to developing appropriate products and services to improve the resilience of poor people to disasters and to the United Nations Sustainable Development Goals.

Professor Thankom Arun
Chair of the ICMIF Academic Steering Committee on Financial Inclusion (ASC)



Professor Thankom Arun

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ABSTRACT

Kenyan insurers CIC Insurance Group (CIC) and Takaful Insurance of Africa (TIA) partnered with the International Cooperative and Mutual Insurance Federation (ICMIF) to formulate an evidence-based country strategy for developing microinsurance delivered by mutual or cooperative insurers (hereafter referred to as “mutual microinsurance”) in Kenya. This partnership was under the ICMIF *5-5-5 Mutual Microinsurance Strategy*, which is a five year project based in five emerging market countries (India, Kenya, Colombia, the Philippines and Sri Lanka) and aims to provide 5 million households with insurance cover for the first time to take them out of poverty.

The first step was to conduct a diagnostic study of mutual microinsurance in Kenya, and SBO Research and ACRE Africa were commissioned to conduct this study. The main objective was to gather information to formulate the strategy to scale up mutual microinsurance among low-income households in Kenya.

Research was carried out on the current mutual microinsurance environment in Kenya related to supply, demand and regulatory aspects for low-income customers. The study targeted current and potential mutual microinsurance users, providers and experts. Various data collection methods were used including desk research, qualitative research (including nine focus groups and 12 in-depth interviews), 1,000 quantitative interviews, and five case studies. Data was analysed and interpreted through a triangulation of different sets of data. The study was conducted in 2016.

Findings of the study revealed that Kenya does not have a clear definition of microinsurance, hence the sector operates within the precincts of conventional insurance and Takaful (Sharia-compliant insurance) regulations. There are two models of mutual microinsurance in Kenya (the Takaful model operated by TIA and the cooperative model). The two models are operated both formally and informally. Microinsurance in Kenya is relatively new and is mostly offered by 10 of the 53 registered conventional insurance companies. The gross written premiums classified as microinsurance amounted to USD 13.8 million compared to the total industry premiums of USD 1.97 billion, representing 0.6% of the total market (AKI, 2016).

The main barriers preventing the growth of mutual microinsurance in Kenya are limited distribution channels, high transaction costs, and an unclear policy and regulatory framework for microinsurance. Growth of the microinsurance market can be enhanced through wider technology use, especially mobile money transfer systems, more specifically M-Pesa¹ which has increased access to financial services across Kenya. In recognition of this, insurers have identified an opportunity to tailor products with premium payments made through M-Pesa. Use of unconventional distribution channels is another way to increase uptake, eg use of community shops to distribute Takaful insurance products among pastoral (livestock farming) communities.

The microinsurance products offered range from simple life plans to group life plans. The life microinsurance policies include personal life, funeral and last expense cover, pension plans, credit life and savings plans. The general microinsurance policies offer protection against a wide range of risks including health and medical bills, crop destruction, agricultural inputs, burglary and property destruction (amongst others). It was noted that the microinsurance products in the market currently lack differentiation. The benefits offered are very similar and premiums are more or less the same. The microinsurance landscape in Kenya is characterised by various insurance players, primarily insurance companies, microfinance institutions (MFIs) and banks. The insurance companies conduct the underwriting while the MFIs and banks act as aggregators in distributing the products. Other partnerships that exist in the microinsurance market include cooperative societies, agricultural vets, savings and credit cooperative organisations (SACCOs), and funeral homes. Mobile money platforms and ICT companies have been key partners in microinsurance distribution offering technology-based platforms hence enabling customers to access microinsurance products through mobile phones.

An analysis of the supply of microinsurance in Kenya shows that the main challenges faced are: too much exclusion (making the products appear unattractive), a long turn-around time for claim payments, lack of enough bundled products (eg medical cover bundled with credit), religious

¹ M-Pesa is a mobile phone-based money transfer, financing and microfinancing service, which launched in 2007 by Vodafone for Safaricom and Vodacom (the largest mobile network operators in Kenya and Tanzania).

stand on insurance (especially among Muslims), and a lack of understanding about insurance. Both current and potential microinsurance customers appreciate the value and convenience that comes with microinsurance and would be willing to purchase microinsurance products. Information, support and transparency should however be enhanced. Insurers should also partner with more intermediaries in order to widen their reach, and leverage the trust and infrastructure of these intermediaries. All these factors clearly illustrate that a different concept of insurance is therefore necessary to facilitate the required growth and tap into the potential market which exists in the informal sector.

This study recommends supporting the development of mutual microinsurance in Kenya through the following measures: increased demand for needs-based products for low-income earners; increased innovations and partnerships (eg to increase efficiency in processes such as registration, administration and compensation); flexible regulations; use of new distribution channels; product bundling based on risk priorities; more insurance literacy initiatives; and scaling up the existing mutual insurers.

1. INTRODUCTION

1.1. Background

The International Cooperative and Mutual Insurance Federation (ICMIF) aims to help mutual microinsurance reach scale in emerging markets in order to positively impact the lives of millions of low income households. Although in emerging markets there are some very good examples of mutual insurers offering valuable services to poor households, the majority of these have struggled to reach substantial scale. In June 2016, ICMIF adopted the *5-5-5 Mutual Microinsurance Strategy*; over a five-year period, the ICMIF Foundation plans to extend mutual microinsurance in five emerging markets, reaching out to 5 million new households (equating to an additional 25 million previously individuals from low-income communities). Kenya is one of the five emerging market countries selected (along with Colombia, India, the Philippines and Sri Lanka).

In order to create an informed response for the development of mutual microinsurance in Kenya to fulfil this goal, ICMIF partnered with Kenyan insurers CIC Insurance Group (CIC) and Takaful Insurance of Africa (TIA). In turn, ICMIF, CIC and TIA commissioned local researchers SBO Research and ACRE Africa to conduct a country diagnostic study of mutual and cooperative microinsurance in Kenya. The main aim of this study was to understand the landscape of mutual microinsurance in Kenya which would feed into the evidence-based strategy for the development of mutual microinsurance in the country.

ICMIF defines mutual microinsurance as “pro-active efforts at providing insurance services to the low-income and marginalised groups in a manner where they participate in the design, development, management and governance of such products, services or institutions” (ICMIF, 2015). The term “mutual microinsurance” has been adopted because it is broader and includes all types of marginalised groups which may not fall under the conventional microinsurance definition. The study sought to uncover in-depth insights into the mutual microinsurance environment in Kenya, with a view of identifying the gaps which will lead to the scaling up of insurance among low-income households.

1.2. Goal

This study aimed to identify solutions to current barriers preventing the growth of mutual microinsurance through an evidence-based methodology, and identify potential aggregator distribution partners to scale up mutual microinsurance to reach an additional 1 million low-income and marginalised households in Kenya.

The overall objective of this study was:

‘To gather information that will inform the strategy for scaling up mutual microinsurance among low-income households in Kenya.’

The specific objectives were as follows.

- ▶ To understand the current context of mutual microinsurance in the country.
- ▶ Outline what is required to support the growth and development of mutual microinsurance in the country, which will lead to an addition of 1 million new low-income households accessing mutual microinsurance.
- ▶ Identify where the gaps are in the market and what needs to be done to scale up microinsurance penetration.

The parameters guiding the study were based on the ICMIF Development Committee's definition of mutuals and mutual microinsurance and the underlying market characteristics in Kenya specifically with regard to:

- ▶ sources and levels of income;
- ▶ geographical locations;
- ▶ nature of the market (eg regulations);
- ▶ market potential (demand and supply);
- ▶ gaps and opportunities; and
- ▶ bottlenecks preventing implementation and scale.

1.3. Target

The study targeted all the stakeholders for mutual microinsurance namely insurance companies currently offering mutual microinsurance products, the distribution channel players, and potential and current users of mutual microinsurance.

In recognition of the values of mutual microinsurance, which are at the heart of this study, efforts were made to identify and interview various marginalised groups who were potential users of mutual microinsurance products. These were used to develop case studies.

Some of these groups included:

- ▶ savings and credit cooperative organisations (SACCOs)
- ▶ farmer and pastoralist groups
- ▶ trade associations, and
- ▶ women and youth enterprises.

1.4. Geographic focus

The study was conducted countrywide in Kenya in order to obtain representative views from target microinsurance users in each region.

2. TECHNICAL APPROACH AND METHODOLOGY

The ACRE Africa and SBO Research team conducted their consultancy using a holistic and comprehensive approach while keeping within the time frame that was stipulated for the consultancy. The research was conducted in several phases (refer to Table 1).

Table 1: Research approach

Activity	Outcome
Phase 1: Study launch	
Clarification of terms of reference. Project commissioning. Project schedule.	Outline report
Phase 2: Primary data collection	
Design of insurance-related questions to be asked in the field surveys. Piloting of tools. Evidence-based data collection: Semi-structured interviews, individually and through focus group discussions (FGDs). Analysis of the Kenyan mutual microinsurance regulatory framework.	Demand-side report
Phase 3: Secondary data collection	
Desk research and literature review on mutual microinsurance in Kenya. Conducting literature reviews of recent studies on local insurance regulatory frameworks. Understanding how the policy makers, regulators and industry associations address incentives or fees for mutual microinsurance distribution partners.	Regulatory environment report Supply side report
Phase 4: Potential aggregators	
Meetings with SACCOs and other organised groups to assess the demand side and develop case studies. Development of case studies on mutual microinsurance providers in Kenya to highlight successes and challenges.	Case studies developed
Phase 5: Analysis and discovery	
Understanding bottlenecks and gaps holding back the scale up of insurance with low-income households. The field survey included questions on whether the microinsurance products currently offered address the main or most visible risks to the low-income population and their subsequent ability to pay for such products. Innovations for mutual microinsurance distribution and scale up.	Sections addressing conclusions on penetration challenges, bottlenecks/gaps and innovations for scale up

Activity	Outcome
Phase 6: Draft report and validation	
Draft version of full research findings, methodologies and diagnostics.	Draft report presentation and validation
Draft version of case studies, regulatory framework, analysis/discovery.	
Growth strategy for development of mutual microinsurance: Final section on the report synthesising findings into points to reach 1 million households.	
Phase 7: Final reporting and discussion	
Final report.	Final report presentation
Presentation of findings, discussion on ways forward. Setting the stage for the strategic implementation phase.	

Date of study: 2016

2.1. Qualitative and quantitative instrument development

SBO Research and ACRE Africa used a combination of quantitative and qualitative tools to collect data required for the analysis and market assessment of mutual microinsurance in Kenya. Specifically, SBO Research and ACRE Africa used standardised quantitative surveys to measure demographics, assets and income, education levels, network dynamics and the overall perceptions of risk. In order to better understand behaviours and perceptions surrounding insurance, SBO Research and ACRE Africa conducted qualitative semi-structured interviews. These instruments and experimental protocols were refined during piloting, and finalised materials were thereby submitted for approval prior to large-scale data collection.

2.2. Data collection methods

The research team collected data using a range of quantitative and qualitative methods specifically desk study, surveys, focus group discussions (FGDs), and in-depth interviews with experts. The data collection team or field team was made up of qualified qualitative facilitators. All interviews and focus groups were recorded and transcribed. During quantitative field data collection, SBO Research conducted high frequency checks as well as back checks to ensure the integrity and quality of all data.

2.2.1. Focus group discussions

FGDs are fundamentally a qualitative approach which helps in answering “why”. The techniques that were employed in FGDs helped in developing ideas and stimulating discussions to enhance participation. This was instrumental in exploring individual feelings, perceptions and needs. Projective techniques were used to further explore the image, perception, relationships, feelings, emotions and personal memories associated with insurance services. The FGDs mainly targeted pre-existing groups and had a minimum of eight respondents each and a maximum of 10 respondents. The researchers ensured that the participants for the focus groups were screened appropriately in order to ensure they met the criteria set.

2.2.2. In-depth interviews

In-depth interviews are a technique whereby a researcher holds a one-to-one interview with a target respondent. This method allows the researcher to “drill down” on issues in greater depths, and the respondent is able to express himself/herself better even on sensitive issues since there is no other audience. In-depth interviews were used to gather qualitative information from key respondents, which included stakeholders from the insurance sector. A triangulation method was used in order to increase the credibility of the findings from in-depth interviews (ie the researchers relied on multiple data collection methods to check the authenticity of their results). The recording of any potentially useful data was also done thoroughly, accurately, and systematically using field

notes, sketches, audiotapes, photographs and other suitable means while observing ethical principles of research.

2.2.3. Quantitative interviews

Quantitative data was gathered through face-to-face interviews using structured questionnaires. This helped to answer the question of “what proportion or percentages of respondents hold a certain view?”

Face-to-face interviews were used to collect quantitative data since this method has a distinct advantage of enabling the researcher to establish rapport with potential participants and therefore gain their cooperation. These interviews yield the highest response rates and allow the researcher to clarify ambiguous answers and when appropriate, seek follow-up information. The data was analysed to answer issues raised from the research objectives.

2.2.4. Photography and videography

Images evoke deeper elements of human consciousness than words. Photography was therefore an important research tool since visual image has been used to describe what is most important to humans throughout history and is able to evoke emotions, abstract ideas, and the shared human experience.

2.2.5. Desk study

ACRE Africa conducted a review of the relevant studies, papers, policy documents and technical reports on microinsurance and mutual insurance in Kenya and other developing countries. This process was essential for obtaining comprehensive and comparable literature in line with the terms of reference for the study. The literature review involved both primary and secondary data sourcing.

2.3. Sampling

2.3.1. In-depth interviews

The researchers conducted a sample of 12 in-depth interviews. The in-depth interviews involved a one-to-one engagement and were therefore used for business-to-business (B2B) interviews. They used an in-depth guide prepared by SBO Research and ACRE Africa and pre-approved by CIC Insurance Group (CIC) and Takaful Insurance of Africa (TIA) before the fieldwork began. SBO Research used experienced B2B resources to conduct the interviews with various key informants identified, which included the following: product developers; aggregators; potential and current distribution channels; users (both present and potential); and regulators.

2.3.2. Focus group discussions

Ten FGDs were conducted for this study, targeting individual respondents who were mainly members of households and organised groups. The FGDs were conducted in Nairobi, Nakuru, Nyeri and Wajir.

2.3.3. Case studies

Eight case studies were conducted with potential providers and aggregators of mutual microinsurance.

2.3.4. Quantitative interviews

The quantitative phase entailed conducting one-to-one interviews with potential microinsurance consumers. A total of 1,000 respondents were targeted in this study but only 884 interviews were successfully completed, translating to a response rate of 88%. This forms the basis of the primary data presented in this report.

2.3.5. Sample identification

Following the terms of reference and the work plan for the implementation of the consultancy, the ACRE Africa and SBO Research team proceeded to identify the organisations to be interviewed for the baseline study and case studies.

The three categories of stakeholders were identified as those who make up the mutual insurance and microinsurance environment in Kenya which are:

- a. regulators and influencing organisations;
- b. providers (ie insurance and reinsurance companies, insurance agencies, and insurance service providers); and
- c. potential aggregators and beneficiaries (cooperative societies and community-based organisations (CBOs)).

Using ICMIF's criteria to define organisations with a potential or existing mutual microinsurance background, ACRE Africa and SBO Research came up with the following benchmarks to narrow down the list of stakeholders.

- a. The organisation's shareholders are also the policyholders.
- b. The potential outreach number should be significantly large.
- c. There should be a focus on low-income earners.
- d. Stakeholders should be willing to dedicate resources to eventually take up a product.
- e. The list of stakeholders is all-inclusive and cuts across socio-economic classes.
- f. Stakeholders should have evidence of sustainable social impact.

2.4. Quality assurance measures

The quality control and assurance measures were as follows.

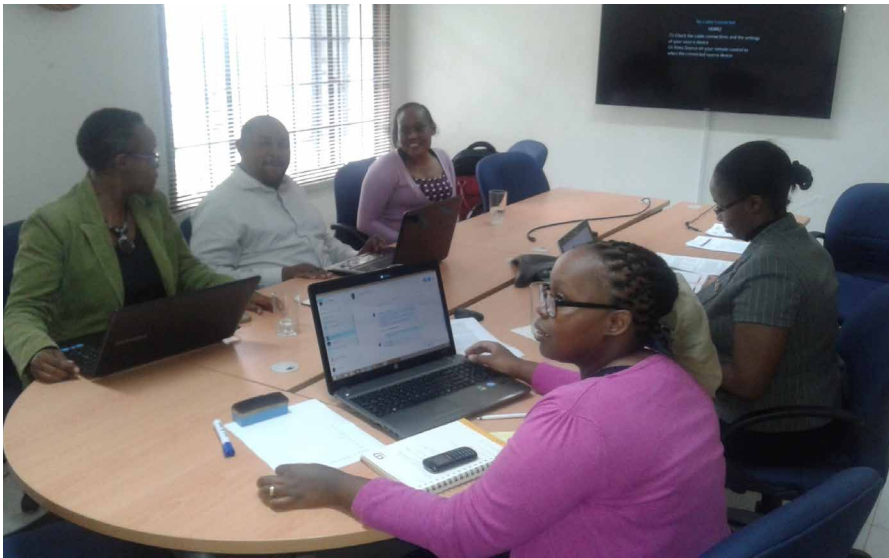
- a. Piloting of research instruments before the project commenced.
- b. Thorough training and briefing of the research team.
- c. Assuring respondents of confidentiality.
- d. Questionnaire editing to determine inconsistencies.
- e. The field process was supervised through accompaniment (20%) and back-checking (10%).
- f. Client involvement in every stage.
- g. One hundred percent data entry verification.
- h. Involvement of competent and experienced staff in all assignments.
- i. Lateral thinking applied in the interpretation and delivery of insights.

2.5. Schedule

Following the signing of the contract for the consultancy services for an evidence-based microinsurance and mutual insurance study on 20 June 2016, ACRE Africa and SBO Research embarked on the consultancy assignments as defined in the terms of reference and in the work plan.

2.6. Data analysis and discovery

ACRE Africa and SBO Research conducted an internal and joint analysis and processing of data as well as a triangulation of different sets of data to come up with conclusive results from which recommendations were drawn.



ABOVE SBO Research/ACRE Africa meeting (June 2016)



ABOVE Interview with Zachariah Chuiyot (Head of Banking, KCB) (August 2016)

BELOW Interview with Zacheus (Head of M-Bima, CIC) (August 2016)



BELOW Interview with Hassan Bashir (Group CEO, TIA) (August 2016)



BELOW Interview with Cleophas Ndaramu (COO, Juhudi Kilimo) (August 2016)



ABOVE FGD with Dairy Traders' Association Group (Nakuru County, August 2016)



ABOVE Interview with Zacheus Oloo (CEO, Changamka microinsurance) (August 2016)



ABOVE FGD with Ugiriri Wa Mwiri Health Group (Nakuru County, August 2016)

BELOW FGD with Seguton Gold Womens Group (August 2016)



3. LITERATURE REVIEW

3.1. Introduction

This section is an in-depth analysis of the available literature with an aim of uncovering informed insights into the mutual microinsurance environment, and identifying the gaps which will lead to the scaling up of insurance among low-income households in Kenya. The focus was to understand the landscape of mutual microinsurance related to the supply, demand and regulatory framework for low-income customers. Finally, the literature review also focused on identifying potential aggregator distribution partners for mutual insurance products, which may be potential business partners for existing mutual insurance companies in Kenya.

3.2. Overview of the Kenyan economy

3.2.1. Population and economic growth

The demographics of Kenya show that the country has one of the highest population growth rates in the world. The total population is estimated at 50,129,774 by the United Nations compared to only 6,077,000 in 1950 (United Nations, 2018). This was largely because of expansions in telecommunications, transport, construction and a recovery in agriculture. These improvements are supported by a large pool of English-speaking professional workers. There is a high level of computer literacy, especially among the youth.

The World Bank's Kenya Economic Update (KEU) dated April 2017 projected a 5.5% growth in gross domestic product (GDP) in 2017. The report attributed the positive outlook to low oil prices, good agriculture performance, supportive monetary policy, and ongoing infrastructure investments (World Bank Group, 2017). Kenya has the potential to be one of Africa's great success stories with its growing youthful population, a dynamic private sector, a new constitution, and its pivotal role in East Africa. Addressing the challenges of poverty, inequality, low investment and low firm productivity in order to achieve rapid and sustainable growth rates will be a major goal for Kenya, and will transform the lives of ordinary citizens.

3.2.2. The insurance sector in Kenya

According to the Kenya National Bureau of Statistics (KNBS), the growth in the insurance sector slowed to 0.7% in 2015 compared to the 0.9% growth the sector posted in 2014 (KNBS, 2016). This can be attributed to a depressed domestic equities market, and the weakening of the Kenyan shilling. The Insurance Regulatory Authority's (IRA) new regulations (which include the introduction of risk-based capital requirements and an increase in the minimum core capital requirements for both life insurance business from USD 1.5 million to USD 4 million and long-term insurance business from USD 3 million to USD 6 million) were set to be implemented from June 2016 until June 2018 (AKI, 2015). The implementation of these regulations, together with the rising premium levels and improving rates of insurance penetration in Kenya, could lead to consolidation, mergers and acquisitions in the industry. An example of a recent transaction in the sector is the purchase of a 63% stake in First Assurance by Barclays Africa in June 2015.

According to a report on microinsurance by the Association of Kenya Insurers (AKI), in the Kenyan microinsurance market insurance companies act as underwriters, while banks and microfinance institutions (MFIs) act as aggregators which distribute the products (AKI, 2015). The study revealed the existence of other partnerships such as cooperative societies, agricultural vets, savings and credit cooperative organisations (SACCOs), funeral homes, mobile money providers and ICT companies. The study went further to point out that there was high potential on the demand side given the value and convenience customers derived from microinsurance. The study came up with various recommendations on how to penetrate the microinsurance market, including the need for insurers to reach out to low-income earners, the need to have more partnerships, the need to diversify the product portfolio to cover real needs such as unemployment, and the need for education. Providers of microinsurance in Kenya need to redirect their services to include traditional beneficiaries of microinsurance, namely the economically active poor people who are unable to get credit from conventional banks.

3.2.3. The cooperative sector in Kenya

The cooperative movement in Kenya goes back to 1908 when the first cooperative, a dairy cooperative, was established. In 1931, the first Co-operative Ordinance was enacted to regulate the operations of cooperatives by the then British government. In 1946, the role of the Africans was acknowledged by the colonial government as enacted in the Co-operative Societies' Ordinance as well as sessional paper No 10 of 1965 on "African Socialism". The Swynnerton Plan² created room for the formation of cash crop-based cooperatives in 1955 and by 1969 the total number of cooperatives in Kenya amounted to 1,894. The first post-independence Co-operative Development Policy was contained in Sessional Paper No 8 of 1970 and consequently in its 1975 review. The implementation of Structural Adjustment Programmes (SAPs) in 1986 emphasised private sector led economic development which was re-emphasised in 1994 and 1997 through sessional papers.

The Cooperative Societies' Act No 12 in 1997 removed state control of cooperatives completely. In recognition of the growing importance and sophistication of SACCOs, a SACCO Societies' Act was enacted in 2008. Kenya's cooperative movement is currently ranked first in Africa and seventh internationally. In July 2013 the World Council of Credit Unions (WCOCU) recognised Kenya's SACCOs as the fastest growing subsector in the world (Government of Kenya, 2014).

² The Swynnerton Plan was a colonial agricultural policy that appeared as a government report in 1954 in Kenya, aiming to intensify the development of agricultural practice in Kenya.

4. FINDINGS FROM THE DIAGNOSTIC STUDY

4.1. Definition of microinsurance in Kenya

The Insurance Regulatory Authority (IRA) of Kenya has no set definition of microinsurance but has drafted a detailed framework, regulations and guidelines for microinsurance business. Mutual microinsurance is not clearly defined either leaving the sector operating in the margins of conventional and Takaful regulations. Mutual microinsurance in Kenya is visible through the Takaful model operated by Takaful Insurance of Africa (TIA) and the formal and informal cooperative models. The collaborative spirit in Kenyan and other African societies lays a strong foundation for informal mutuals to operate and remain viable particularly in rural areas where the majority of low-income earners are located.

4.2. Status of microinsurance in Kenya

Kenya is classified as a lower-middle income country, and 42% of its population is considered poor with an income of less than one USD 1 per day (UNICEF, 2016). The largest proportion of the population comprises of smallholder farmers, small traders and manufacturers, and people generating livelihoods on a small and generally vulnerable scale. In recent years, Kenya's financial sector (including banking, microfinance, savings and credit cooperatives) has increasingly realised that there is great potential at the bottom of the pyramid and this is therefore a viable target market for microinsurance. Insurance players have in recent years created a wide variety of insurance products and services in an endeavour to meet the needs of the low-income customers. The insurance sector has however not penetrated the low-income market on nearly the same scale as other financial sectors have.

Compared to other countries in Africa, the microinsurance market in Kenya is still underdeveloped, and microinsurance is mostly supplied by conventional insurance companies who seem to lack a well spelt out strategy. However, insurers are increasingly becoming active, and informal "insurers" are expanding into the formal insurance system. In 2016, the gross written premiums classified as microinsurance amounted to USD 13.8 million, compared to the total industry premiums of USD 1.97 billion representing 0.6%. Among 53 insurers in the industry, only 10 were underwriting microinsurance (Association of Kenya Insurers (AKI), 2016).

An article published in the *International Journal of Economics, Commerce and Management* highlights the following factors as having affected the growth of microinsurance in Kenya (Wairimu and Okibo, 2015).

a. Distribution channels

Microinsurance in Kenya is mostly distributed through the following channels:

- ▶ Agriculture dealers
- ▶ Banks
- ▶ Microfinance institutions (MFIs)
- ▶ Funeral homes
- ▶ Community-based organisations (CBOs)
- ▶ Cooperatives
- ▶ Savings and credit cooperative organisations (SACCOs)
- ▶ Agents and brokers

The Landscape of Microinsurance Africa 2015 (Microinsurance Network, 2015) indicates that out of the 61.8 million people covered under microinsurance in Africa, mass market channels such as multi-national operations, retailers and funeral parlours accounted for 44% of product distribution, agents and brokers accounted for 25%, MFIs accounted for 13%, other financial institutions accounted for 10%, and member organisations 3%. Therefore, agents and brokers have been the most effective distribution channels for conventional insurance. The study also revealed that agents and brokers are not as successful in the mass distribution of microinsurance as the mass market channels, given their low presence in rural and low-income areas. Other channels should be strategically identified in order to increase microinsurance penetration.

b. Transaction costs

The study further revealed that the transaction costs involved in microinsurance may be greater than the income generated. There is a need to seek cost-effective mechanisms for distributing microinsurance to ensure it reaches more of the targeted population, for example utilising technology such as social media and mobile phones.

c. Policy and regulatory framework

Similar to other study findings, the paper also highlighted that the policy and regulatory framework has no provisions pertaining to microinsurance in Kenya and current initiatives are either conducted within the existing general policy and regulatory environment of mainstream insurance or informally away from existing regulation.

4.2.1. Drivers of microinsurance in Kenya: Key success factors

There are two major trends which have contributed to the initial interest and momentum behind the success of microinsurance in Kenya.

These include:

- a. Use of technology: Initially, the most common mode of payment for insurance premiums was through electronic cash transfer, insurance premium financing, cheques and “check-off” methods by financial institutions. The spread and acceptance of the mobile money transfer systems, more specifically M-Pesa, has increased access to financial services and in recognition of this, insurers have identified an opportunity to tailor those products with premium payments made through M-Pesa. This system has been found to be a preferred mode of payment for microinsurance products for the majority of low-income earners due to its convenience.
- b. Distribution channels: Industry players have realised that they will achieve increased uptake when the product is in the hands of the consumers. This has prompted ‘unconventional’ distribution channels such as the use of community shops to distribute Takaful insurance products, use of agricultural vets to distribute crop insurance, and the use of veterinary and agricultural extension officers to distribute livestock insurance. This is a shift from conventional distribution systems which were legally required to have a basic certificate of proficiency to sell insurance.

4.2.2. Key barriers preventing a vibrant microinsurance sector in Kenya

a. Pricing

According to past studies, low-income earners buy insurance if the products meet their needs and are affordable and accessible. In Kenya, the market demands affordability and accessibility of the products as well as product features aligned with a timely payment of claims. Insurers struggle to maintain low administrative costs to match the margins resulting from the low premiums and relatively matched risk levels thereby creating the absence of an economy of scale.

b. Lack of social responsibility by consumers

The potential market for microinsurance lacks an inherent social responsibility in utilising the products particularly in health insurance, instead maintaining an approach of “I have paid for it so I must use it before it expires”. This approach, coupled with cheaply priced products, leads to high claims ratios which fails to make business sense to the insurers.

c. Cost of market and product awareness

To adequately reach the target market and achieve numbers and scale, insurers need to conduct intense market and product awareness campaigns which are expensive and resource intensive. Insurers have been unable to manage these awareness campaigns, maintain low costs and make profits. This translates to the low insurance penetration rates in Kenya.

4.3. Characteristics of the target market for microinsurance in Kenya

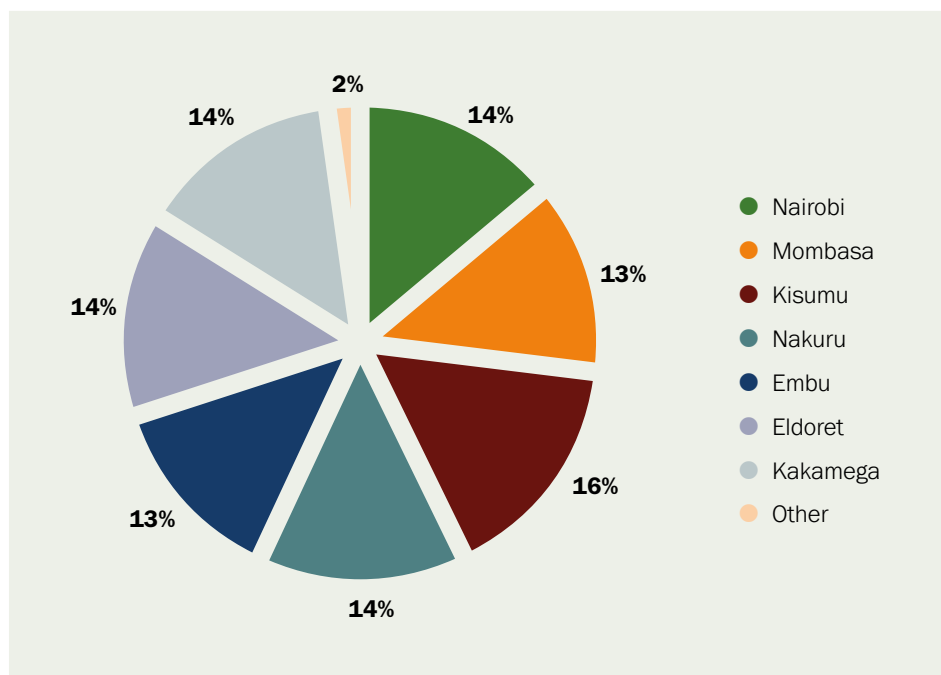
The market characteristics of the potential beneficiaries for microinsurance were assessed based on the following criteria.

- ▶ Geographical locations
- ▶ Gender
- ▶ Age
- ▶ Education level and income (ie sources of income, levels of income and regularity)

a. Geographical location of study respondents

Respondents for this study were drawn from various geographical regions in Kenya to obtain adequate representation (refer to Figure 1).

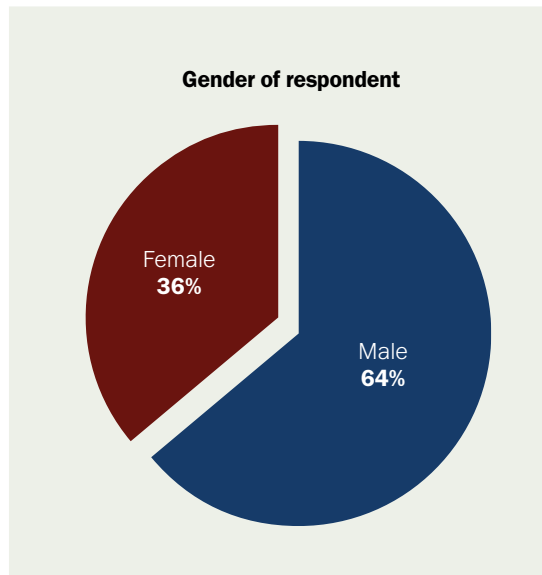
Figure 1: Geographical location of study respondents



b. Gender of study respondents

Figure 2 illustrates that both male and female respondents were represented in the study. However, there were slightly more male respondents (64%) in comparison to female respondents (36%).

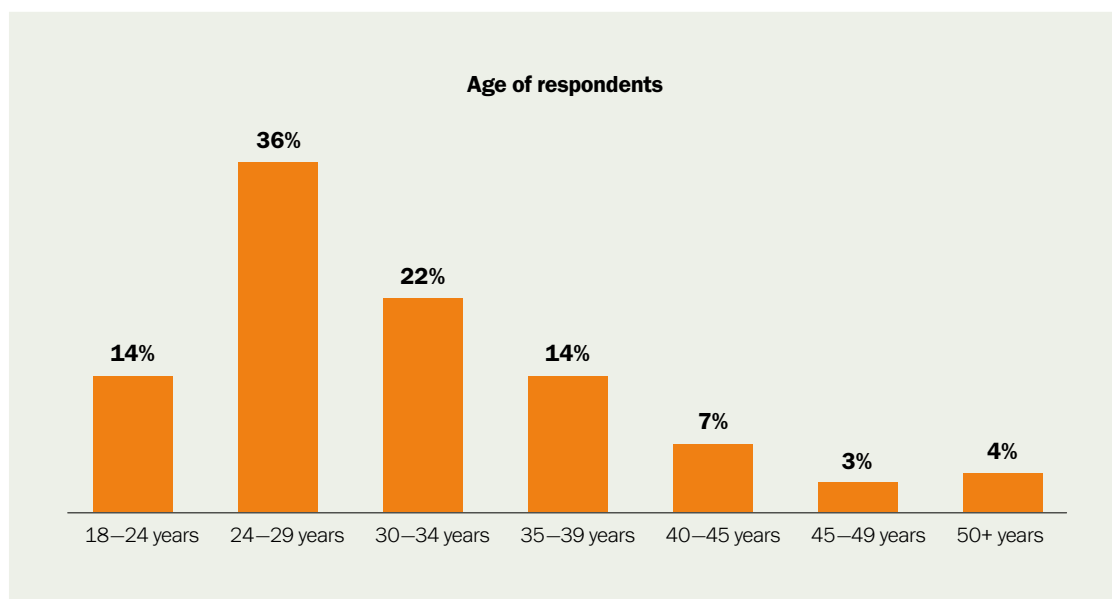
Figure 2: Gender of study respondents



c. Age of study respondents

The age of the respondents interviewed ranged from 18 years to above 50 years. This is a clear representation therefore of the age of the target market for mutual microinsurance in Kenya, the majority of whom are 24 years to 39 years.

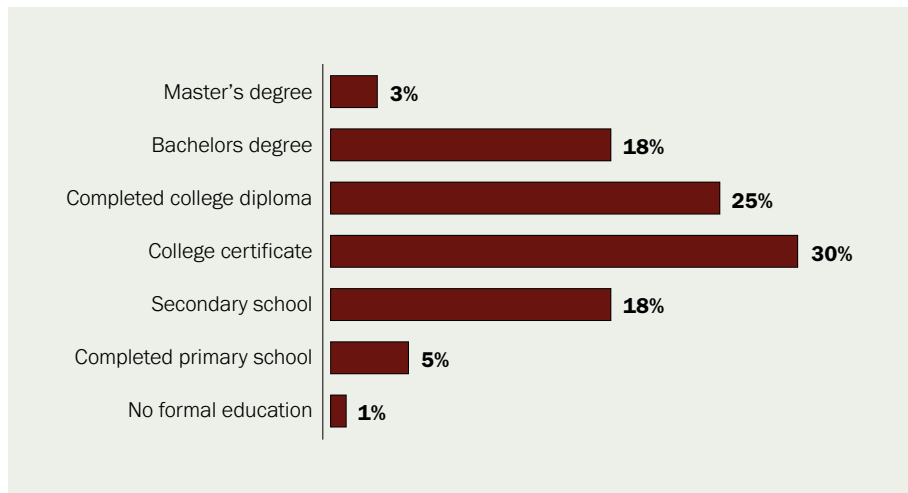
Figure 3: Profile of study respondents by age



d. Education level

Findings reveal that 23% of the target market for mutual microinsurance had a very basic level of education (primary school and secondary school) while 1% did not have any form of formal education at all.

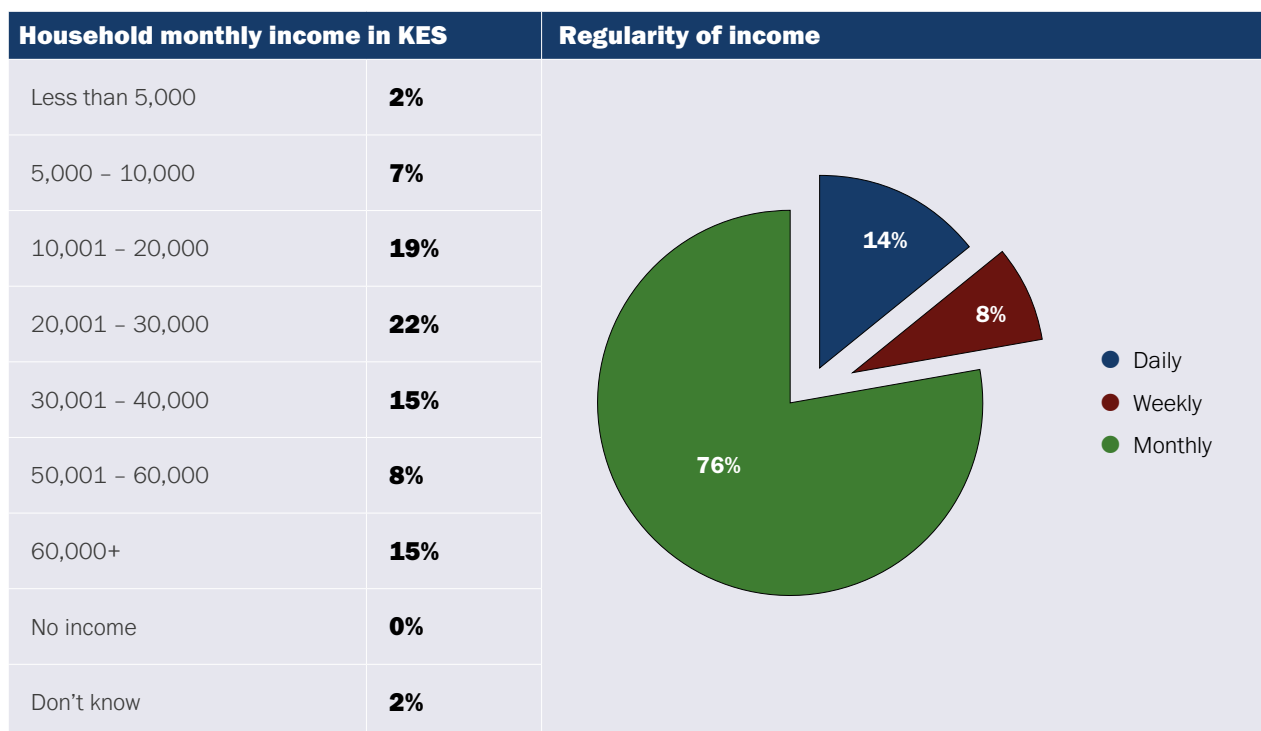
Figure 4: Highest level of education attained by study respondents



e. Income sources, levels of income and regularity

The average monthly wage for half of the respondents was less than USD 300, which is equivalent to USD 10 per day. Seventy six percent of the respondents received monthly wages, 8% weekly and 14% earn a daily wage.

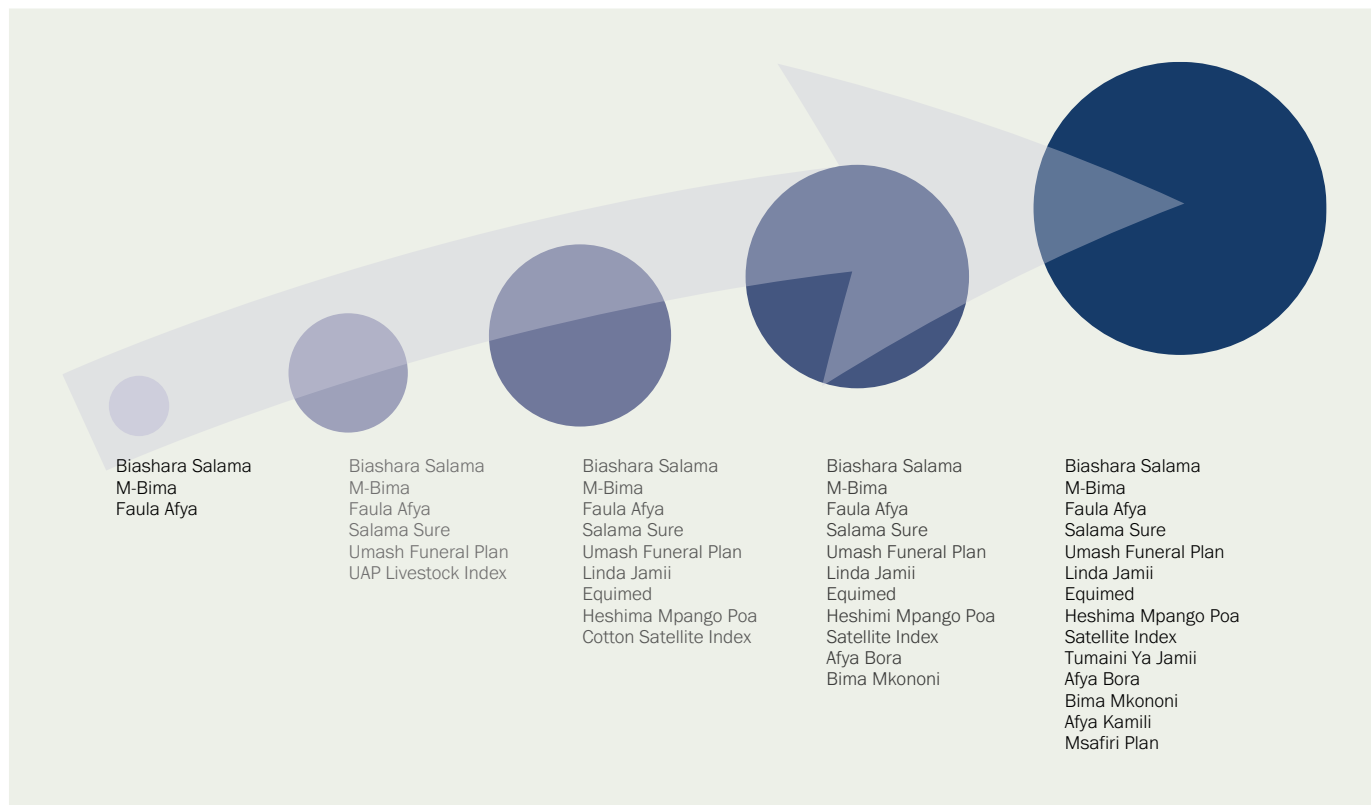
Figure 5: Income profile of study respondents



4.5. Evolution of microinsurance products

A few changes have taken place to accommodate the change in customers' demands and needs. Some of the evolutionary trends that microinsurance products in Kenya have undergone include the following: price reduction to drive demand; an increase in the number of product options; more risks covered; additional members covered at an extra premium; and repositioning, ie targeting different customer categories.

Figure 6: Evolution of microinsurance products in Kenya since 2010



4.6. Background of microinsurance in Kenya

4.6.1. Current regulatory framework for microinsurance

According to the AKI, in 2016 there were 53 insurance companies, 6,481 insurance agents and 186 insurance brokers in Kenya (AKI, 2016). Of the 53 insurance companies, 10 were offering microinsurance products which contributed USD 1.3 million (0.66%) of the total gross direct premium in 2016. The top three underwriters, namely Britam (USD 0.58 million), CIC (USD 0.22 million) and APA (USD 0.18 million), accounted for over three-quarters of the total premiums.

Initially, the goals of the study were to identify the current suppliers of microinsurance and mutual insurance, the distribution channels in place, existing supply gaps and challenges. Due to the competitive nature of the industry, few of the microinsurance providers were willing to participate in the study. Over the course of the study, it was clear that the existing insurance companies were not willing to share their experiences.

The IRA is a statutory body formed by the government under the Insurance Act (Amendment) 2006, CAP 487 to regulate, supervise and develop the insurance industry in Kenya. The regulator's duties include setting a framework and regulatory environment to encourage industry players to be more entrepreneurial and innovative. In the mutual microinsurance space, the regulator notes that clear guidelines on the microinsurance sector have been drafted and they are flexible towards accepting changes such as encouraging new distribution channels and commission structures for distribution agents. A good example of this flexibility is made evident in the registration and regulation of TIA. Being a Sharia-compliant insurance company and the first-of-its-kind in Kenya, TIA has contributed

to the development of guidelines and regulations suitable for Sharia-compliant mutual insurance companies.

The latest set of regulations for microinsurance is the Kenya Microinsurance Policy Paper Final Draft dated 13 May 2014 and the related Draft Microinsurance Bill 2015 (IRA, 2015). The Kenya Microinsurance Policy Paper Final Draft acknowledged that there were regulatory hurdles in the design, promotion and scale of microinsurance under the Insurance Act Cap 487, which is liable for regulating all insurance business. These hurdles included licensing requirements, dispute resolution mechanisms, distribution channels, and the formalisation of informal risk coping mechanisms to suit market demand. These issues are now addressed through Section 59(2) of the Act.

The Bill has been designed to respond to the needs of the low-income earners and to clearly separate microinsurance contracts from other insurance contracts in adherence to criteria laid out in the Draft Microinsurance Bill 2015. Some of the critical issues addressed include the following.

- a. Exclusions. The bill dictates that the contract should have few or no exclusions and if exclusions are available, they should be clearly explained before purchase.
- b. Language and length of policy documents. The policy document should be written in either English or Kiswahili and should not be more than one page.
- c. The contract must be specifically designed for low-income earners, and affordable for them.
- d. Claims must be paid within 10 days of notification by the policyholder (or the policyholder should receive a communication from the insurer regarding the payment within 10 days).

From the fact that these regulations were formed in response to market demand, it is clear that the microinsurance space is changing and the regulator is creating favourable conditions for competition and innovation, thus creating a “supply” for a demanding market. The legislative process for the Bill to become law is slow and may take time. However, the regulator is willing to positively react to any industry players willing to work in the microinsurance space under the draft regulations.

4.6.2. Microinsurance products and distribution modes

Microinsurance providers in Kenya have penetrated the market well, with a number of different product lines, despite a narrow outreach for some products, such as agriculture and personal accident. In 2014, microinsurance coverage stood at 2.72 million lives representing 5.98% of the total population and was the third highest microinsurance coverage ratio in the larger East African region after Uganda (6.71%) and Comoros (8.47%). Over half of the lives covered by microinsurance were reached via ‘other financial institutions’ with the majority of this outreach attributed to a single product sold through banks. Mass market and other channels are becoming increasingly important, reaching nearly one quarter of the number of lives covered in 2014 (Microinsurance Network, 2016).

The microinsurance landscape in Kenya is characterised by various insurance players primarily insurance companies, MFIs and banks. The insurance companies do the underwriting while the MFIs and banks act as aggregators in distributing the products. Other partnerships that exist in the microinsurance market include cooperative societies, agricultural vets, SACCOs and funeral homes. Mobile money platforms and ICT companies have been key partners in microinsurance distribution offering technology-based platforms in the distribution chain, hence enabling customers to be able to access microinsurance products through mobile phones.

Microinsurance product lines offered range from simple life plans to group life plans. The **life microinsurance policies** include personal life, funeral cover or last expense, pension plans, credit life and savings plans. The **general microinsurance** policies offer protection against a wide range of risks including health and medical bills, crop destruction, agricultural inputs, burglary and property destruction amongst others. It was noted that the microinsurance products in the market currently lack differentiation. The benefits offered are very similar and premiums are more or less the same.

4.6.3. Supply analysis: Microinsurance providers

a. Juhudi Kilimo

Juhudi Kilimo offers credit life insurance, which has a last expense benefit added on to it, but beneficiaries would prefer to have a medical cover and crop insurance. The product was initially offered in collaboration with the National Hospital Insurance Fund (NHIF) but this failed due to bureaucracy in relation to the processing of claims and updating of records. The main challenges faced with the product include too much exclusion which makes the product unattractive to beneficiaries, and a long turn-around-time for claim payments.

b. KCB micro banking insurance products

The KCB micro banking section offers the following microinsurance products: credit life insurance, asset insurance and stock insurance, all of which have last expense included as an added benefit. Imminent demand exists for affordable outpatient and inpatient cover to be bundled with credit, savings or sickness which is linked to a third of default cases.

c. KCB Islamic banking

Under KCB Islamic banking, a few Sharia-compliant insurance products are available. The study identified the following reasons which have inhibited the penetration or growth of Sharia-compliant microinsurance.

- a. Lack of a regulatory and supervisory framework.
- b. Religious stand on insurance has not been demystified and therefore insurance remains unclear to many.
- c. Lack of skilled human capital (deficiencies in the curriculum).
- d. Within the African culture, people rely on social capital (friends and family) thus there is a perceived lack of need to purchase insurance.
- e. Lack of public education on insurance.
- f. Lack of multiple players in the industry contributes to non-competitiveness therefore leading to a lack of innovation.

d. Takaful Insurance of Africa

TIA was founded in Kenya in the year 2008 and was officially licensed to operate in 2011, with the aim of providing risk management and financial security services founded on ethical principles and values. TIA is licensed by the IRA under the Insurance Act Cap 487 and, in line with the Takaful Operational Guidelines, its model has also been approved by the Sharia Council. Being the first fully Sharia-compliant insurance body in Kenya, TIA operates as a guide and point of reference for regulatory measures and for the formulation of any new regulatory and operational guidelines.

TIA offers an Index-Based Livestock Takaful (IBLT) microinsurance policy. The IBLT product is designed to help protect pastoralists and their livestock against the effects of prolonged forage scarcity, by making payments before the onset of droughts to enable farmers to keep their animals alive. TIA distributes the IBLT product using a mobile phone application accessed by selected agents. The agents are based at local shops close to pastoral communities to make the product accessible. The use of local shops as agents was a new concept introduced by TIA and endorsed by the IRA. This marked a turning point in the distribution of microinsurance in Kenya, as previously all distributing agents had to have a minimum certificate of proficiency.

Mutual microinsurance experience

TIA operates differently from conventional insurance companies, focusing on risk and profit sharing instead of risk transfer and maximising shareholder value. TIA uses the premium contributed

by each policyholder to build a fund which is managed in accordance with legal and Sharia law guidelines through the concept of *Tabarru* (donation) to pay any losses and meet operational expenses. The surplus from the fund is then either used to grow reserves or shared to the policyholders as a profit. The beneficiaries of the IBLT policy appreciated the product, but felt that they needed to receive their share of profits more often in order for them to see the value of the product. This indicates a misconception of the benefits of the product in regards to surplus or profit sharing, which signifies a need for intensive market awareness.

The beneficiaries of the product have also expressed the need for other insurance solutions citing education as a major need (since the community sees educating children as necessary, but expensive). The clients said they would be willing to pay KES 10,000 (USD 10)³ per month for an education insurance policy. This creates an opportunity for TIA to bundle the IBLT product with other products to better meet the needs of the community. TIA's process of distributing the IBLT product using local shop keepers as agents has proven to be successful in terms of numbers registered. The use of technology (mobile applications for distribution and M-Pesa for premium remittances) has also enabled an increase in insurance uptake.

Challenges

TIA's major challenge in scaling this product up is the geographical coverage to reach the areas where pastoralists are located. Proper market and product awareness campaigns are therefore required, and coupled with the lack of infrastructure, it makes this process particularly expensive. The low literacy levels in the area also pose a challenge in the communication of the IBLT product both to agents and pastoralists. Other challenges include the lack of social services such as veterinary services which is a major basic need for the pastoralists who rely on their animals for their livelihoods. The lack of skilled veterinary professionals in the areas and the geographical characteristics of the locations where the pastoralists are located compound the problem.

e. "Ugitiri wa Mwiri"

Ugitiri wa Mwiri (translated as "health cover") is offered through a group of tea farmers, with low but consistent incomes, who pool their contribution (with a deadline of November to December each year). The scheme was formed in 2005 by donors with a five year programme and started with annual contributions of USD 20-30, but since 2010 it has become sustainable leading to a drop in the annual contribution threshold. The programme is well known in Central Kenya spanning five counties (including Nyeri, Kirinyaga, Nakuru and Murang'a).

The main challenges facing this scheme are that:

- ▶ it offers inpatient cover only (members have to pay USD 60 per year to enjoy outpatient services via the NHIF);
- ▶ it is limited to poor farmers, from 40 years of age and above; and
- ▶ an outbreak of a disease would wipe out the surplus fund.

f. Changamka Micro Insurance Ltd

Changamka Micro Insurance Limited (CMI) was founded on the belief that mobile technologies can be leveraged to improve access to healthcare for the lower economy populations in the developing world. Data from the AKI indicates that only 3% of Kenyans were covered by private health insurers with another 7% to 9% covered by the NHIF (AKI, 2016). This left up to 90% of Kenyans without formal healthcare financing. CMI was created to help fill this gap and targets the working poor, with incomes between USD 1.50 and USD 10 per day, which is estimated to be 35% of Kenya's population.

³ At an exchange rate of USD 1 = KES 100. This exchange rate is used throughout the report

Microinsurance experience

CMI partnered with British American Insurance Kenya Limited (BRITAM) and Safaricom Limited for the delivery of *Linda Jamii* (Swahili for “protect the family”). The Linda Jamii health microinsurance policy was launched in 2014 and benefits included hospitalisation cover, outpatient benefits, daily hospital cash benefits and a funeral assistance benefit per household (regardless of the size of the household), at a cost of USD 120 a year for a medical cover worth USD 2,500. The product adopted a microsavings model which used an M-Pesa money transfer platform as the platform for premium collection. Distribution was mainly achieved by policyholders subscribing to an e-card, which enabled them to save exclusively towards the purchase of health insurance for their family using M-Pesa. According to the CEO, Mr Zack Oloo, 60% of households which took the cover were based in urban areas, whereas the remaining 40% were based in rural areas. The product failed and was officially pulled from the market in October 2015 due to a high claims ratio of 240%. By the time Linda Jamii came to a close in September 2015, it had 83,000 registered individuals, represented by 25,000 households. The high number of policyholders was attributed to the fact that the product was relevant to the low-income earners in Kenya and the premium was affordable.

Lessons and recommendations

According to studies carried out by CMI:

- ▶ low-income earners prioritise food and shelter over health which leads to the need to bundle insurance with a basic item such as food;
- ▶ the outpatient cover will only work if it is tied to savings, whereby the beneficiaries do not feel that they have to utilise the cover before it expires; and
- ▶ there is a need for further education on insurance to the beneficiaries to ensure proper understanding of the products and benefits.

CMI noted that in order to increase the uptake of microinsurance it has to be easy to purchase, and recommended utilising technology to make the process of purchase as simple as possible. In addition, microinsurance products require a high level of product awareness and education. No matter how good a product is, communication to the target beneficiaries is important because there is a trust deficit in the industry, as a result of negative past experiences.

4.7. Market potential: Demand for microinsurance

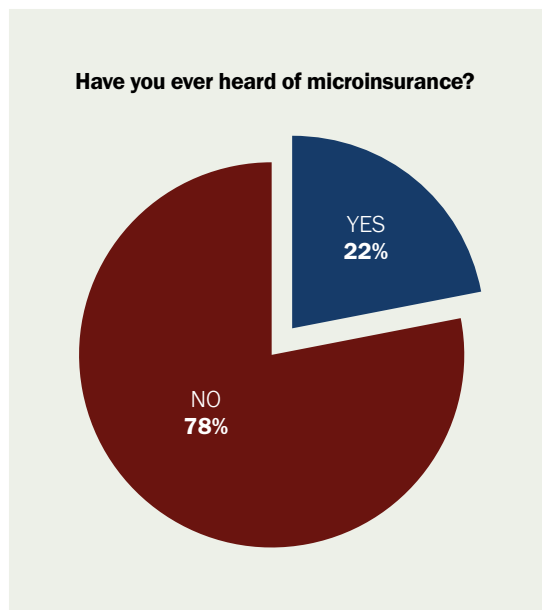
From the demand side, there is vast potential for microinsurance development. Potential customers however lack the necessary information in order to make the right purchase decisions. Those who are already using microinsurance products also lack the necessary user support, hence they are often unable to benefit from their coverage. Both current and potential microinsurance customers appreciate the value and convenience that comes with microinsurance and would be willing to purchase microinsurance products. Information, support and transparency should however be enhanced. Insurers should also partner with more intermediaries in order to widen reach and leverage the trust and infrastructure of these intermediaries. All these factors clearly illustrate that a different concept of insurance is necessary to facilitate the required growth by tapping into the potential existing market in the informal sector.

4.7.1. Demand analysis: Consumers

Awareness of microinsurance among the potential consumers

Findings from the primary research showed that the majority of potential users of microinsurance lack awareness of the existence of microinsurance, and do not have any form of covers against risk (apart from compulsory social schemes) despite being faced with a myriad of risks in their daily lives.

Figure 7: Awareness of microinsurance amongst target market



Risks faced by potential microinsurance users

In order to understand whether there is market potential for microinsurance in Kenya, respondents were asked to highlight the main risks that they are faced within their day-to-day lives. Findings revealed that the main risks facing the general population were related to health expenses, school fees, accidents, funeral expenses and loss of income. The main risk coping mechanisms used by the potential microinsurance users were as follows.

- a. Diversification and venturing into other small income-generating projects.
- b. Women form informal groupings to enable them access to micro loans whereby they mutually share risks (ie they take responsibility to repay for any defaulting member within their group).
- c. Some have a “basket of contribution” to take care of medical bills for any member of their “group”.

The main risks faced by potential microinsurance users are shown in Figure 8.

Figure 8: Risk profile of the target market for microinsurance

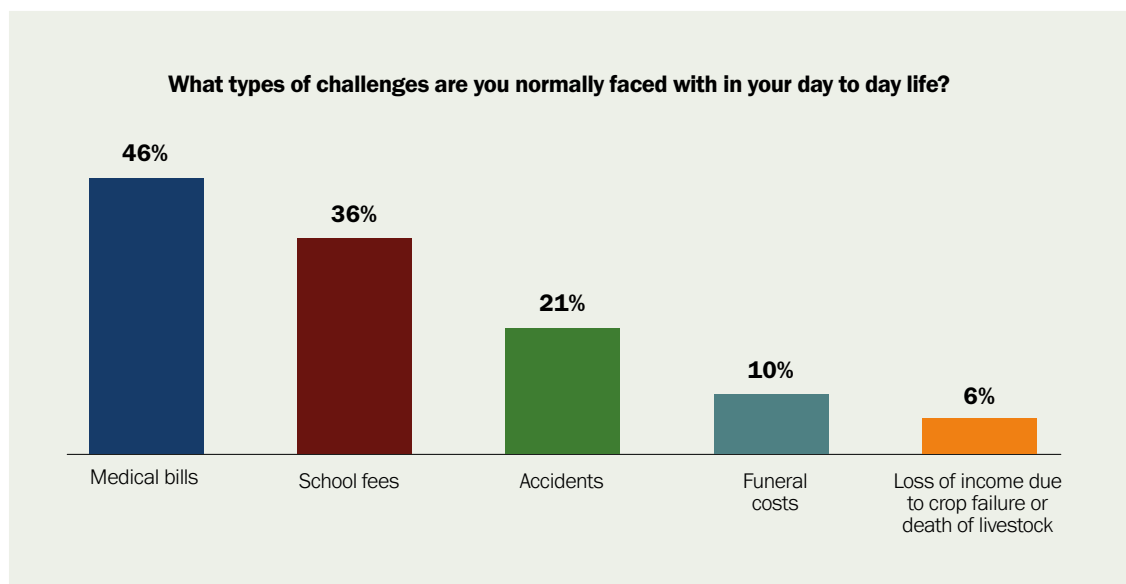


Table 3: Likelihood of encountering risks for potential mutual microinsurance consumers

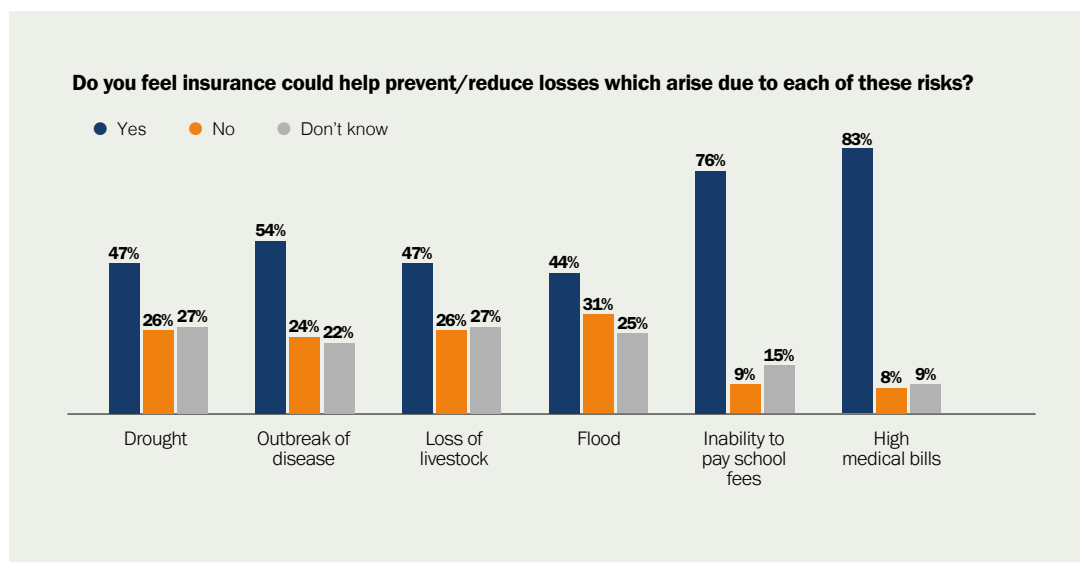
<i>How likely are you to encounter the following risks within the next year? (Scale = 1-5, 5 = most likely)</i>	
	Mean score out of five
High medical bills	3.42
Inability to pay school fees	3.31
Outbreak of disease	2.62
Flood	2.51
Loss of livestock	2.34
Drought	2.30

The findings presented in Figure 8 and Table 3 indicate that health and education are the key challenges facing the low-income population. Demand for microinsurance lies in the challenges and risks that the low-income earners are faced with in their daily lives and consequently, findings show that the largest demand clearly lies in health and education products.

Appropriateness of microinsurance products to potential customers

The target population feel that the current insurance products do not reach them (78% do not know about microinsurance). Seventy five percent welcome the concept of mutual microinsurance and would be interested in health products (61%), life products (58%), and household insurance (24%).

Figure 9: Whether potential target appreciate microinsurance as a risk-coping mechanism



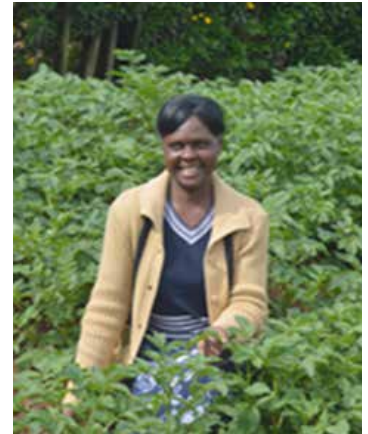
4.7.2. Analysis of the potential for microinsurance

According to the World Bank, Kenya is ranked as a lower middle income country. Estimated statistics from the Kenyan population consensus show that 42% of Kenya's population of 44 million⁴ live under the poverty line and 74% of this total population live in rural areas (UNICEF, 2016). The majority of Kenya's low-income population accesses financial solutions (credit, savings and insurance) through MFIs, banks, SACCOs and mobile network operators. For this reason, the study targeted these service providers to identify the behavioural patterns and market indicators. These service providers were classified into three categories: providers of microinsurance; potential consumers of microinsurance; and the regulators.

This study identified distributors as individuals, mutuals, and institutions offering mutual microinsurance products to the masses such as banks and MFIs.

i. Potential group one

The **Seguton Golden Women's Group** was formed in 2013 under the guidance of a non-governmental organisation (NGO) called Groots, which works with women's groups in rural areas to build their capacity and promote sustainable livelihoods. The group has 35 members who are engaged in crop and livestock farming and is a potential "demand" group.



ABOVE Mrs Christine Asayi, Chair, Seguton Golden Women's Group, shows team members of ACRE Africa her potato crop.

Mutual microinsurance experience

The group operates as an informal mutual in terms of insurance solutions where members contribute a certain amount per month to cater for risks such as hospital bills and funeral expenses. The group members explained that some of them have other insurance solutions, such as the government's NHIF. Members were not particularly satisfied with the NHIF since the government reviewed its rates making it expensive for low-income earners (initially, each member paid USD 1.6 but after the review, the rates went up to USD 5 per month). The members were also not satisfied with the coverage offered by the NHIF explaining that it only covers a small part of their medical expenses.

The members expressed a need for crop and livestock insurance since these are their major sources of income but explained that they have not received enough information about these products. Those who had attended other training sessions where insurance was mentioned explained that the insurance process was too lengthy and too expensive.

Seguton Golden Women's Group were willing to invite other groups in the area for training and to invite an insurance expert to educate them on insurance, specifically health, crop and livestock insurance. They were also willing to use a "trainer-of-trainers" approach whereby they appoint several members to be trained who can then train other group members to ensure all members understand the products and processes clearly, regardless of language and literacy level barriers.

⁴ As the last official census in Kenya was in 2009, the projections from the World Bank differ with those of the United Nations.

ii. Potential group two

Juhudi Kilimo is an MFI that was established to provide loans and training to rural smallholder farmers and agricultural businesses. The institution was built on the foundations of economic contribution by farmers (particularly smallholder farmers), and their lack of access to financial solutions. The MFI currently has a portfolio of over 30,000 farmers, a loan book worth over USD 10 million, and is a “provider” group with 30,000 members acting as a “demand” group.

Microinsurance experience

Unlike other MFIs operating in the country, Juhudi Kilimo does not have an insurance agency, choosing to access insurance solutions directly from insurance companies. The institution offers all their loans bundled with credit life insurance which has a last expense benefit, and all livestock related loans have a compulsory livestock insurance cover. According to Juhudi Kilimo, their clients appreciate the insurance products but have expressed a need for medical and crop insurance citing these as the major risks they are exposed to.

The Juhudi Kilimo management has explored the idea of using the government’s NHIF to offer their clients an option for health insurance but this partnership failed due to the bureaucracy attached to the process of claims and record updates. The management has been looking for other options to enable them to offer need-based solutions to their clients but have encountered too many exclusions which make the product unattractive as well as the problem of the turn-around-time for claim payments. Other challenges include the structures of the insurance products being unattractive to the clients as well as the detailed documentation which makes the process of administration of the insurance difficult. Ninety eight percent of Juhudi Kilimo’s clientele are organised into informal and semi-formal mutuals known as *chamas* (“savings and credit associations”). These mutuals remain strong and active due to the savings and social collateral culture which makes them an ideal entry point for insurance. Juhudi Kilimo recommends a bottom-to-top product development approach for microinsurance stating the fact that it has worked for other MFIs in Kenya. Other recommendations include the review of the cost of insurance products for them to remain competitive when bundled with credit facilities.

iii. Potential group three

KCB Micro Banking is the micro banking unit at KCB Bank Ltd, one of the largest commercial banks in Kenya with over 282 branches across the country. The bank established a micro banking unit in 2008 due to the growing demand for microfinance services and the large population of micro, small and medium enterprises in Kenya with limited access to financial services. KCB Micro Banking offers both individual and group financial services, with the groups being semi-formal and formal groups registered under the Ministry of Gender, Children and Social Development. The bank currently serves over 600,000 clients. The micro banking unit is a “provider” group with its members acting as a “demand” group.

Microinsurance experience

KCB has a bancassurance agency which handles all the bank’s insurance needs. The KCB Micro Banking unit offers credit life, asset and stock insurance, all of which have last expenses as an added benefit. These insurance products are compulsorily bundled with credit products. Asset and stock insurance are also sold as stand-alone products.

According to KCB’s management, the major need expressed by their clients, and identified through historical trends, was health insurance. The Head of KCB Micro Banking explained that the majority of defaults happen when an illness arises in a households, arguing that paying hospital bills takes precedence over loan repayments. KCB recommends bundling insurance with mandatory products due to the fact that few people buy insurance unless it is mandatory by law (such as motor vehicle insurance) or tied to a product they need (such as credit life with loans). Other recommendations included increasing product training and developing insurance products which tap into the savings culture of Kenyans.

iv. Potential group four

KCB Group has also introduced Sharia-compliant financial services to meet the needs of the Islamic community and other non-Muslim clients interested in these services. According to the Head of Islamic Banking, there are a few Sharia-compliant insurance products available and similarly, the demand is slow to respond to the already existing solutions. The department is a “provider” group with its clients acting as a “demand” group.

Microinsurance experience

The KCB Islamic Banking department acknowledged that there is a limitation in the market in terms of the demystification of Sharia-compliant services, which makes the demand for these services remain with the Islamic community and even then, the demand is still low due to lack of proper product awareness. The reliance on social capital (friends and family) remains a major hindrance to the demand and uptake of insurance. This concept was also reinforced by the interviews held with recipients of Index-Based Livestock Takaful (IBLT), a product offered by TIA.

v. Potential group five

The Githunguri Dairy Farmers Co-operative Society is a cooperative in Kiambu County (which neighbours Nairobi City County). The members of Githunguri Society suffer from low and irregular income and income sources from tea and small scale dairy farming. Members often faced with risks such as loss of income when tea prices are low, when rainfall is low or when the price of milk falls. Members also belong to other informal savings groups and these are their most trusted information sources for financial information. These members expressed a deep lack of trust in insurance intermediaries; no insurance company has a physical presence in the area. Members were ignorant about insurance and how it works, and some indicated that they would exploit loopholes in an insurance policy.

The main risks that these members are exposed to were:

- ▶ personal illness (they lack money for treatment)
- ▶ animal illness (no access to a government veterinarian to attend to the animals)
- ▶ losses due to death of their dairy cattle
- ▶ low milk production
- ▶ miscarriages among their cattle
- ▶ outbreak of plant diseases (they have very little information on the diseases and how to handle them)
- ▶ irregular weather patterns (sometimes weather is extremely dry or cold) thus making it hard to farm and no income in return, and
- ▶ supply of substandard animal feeds leading to low milk production.

Risk coping mechanisms

- ▶ Diversification and venturing into other small income-generating projects.
- ▶ However, most do not have risk coping mechanisms.
- ▶ They have limited information on insurance and feel current insurance products do not target them.
- ▶ They were willing to take up insurance if equipped with the right information, if the insurance covers the risks that were specific to them, if the insurance has flexibility and if premiums were affordable.

This study established that there is a need for the following to be done in order to scale up insurance uptake among this target group.

- ▶ Develop channels that can inspire trust among the community; there is an opportunity to partner with the cooperative or to have some form of physical presence.
- ▶ Use of testimonials to demonstrate how insurance works and its usefulness.
- ▶ Insurance education would work well if bundled with extension services to encourage members to do farming as a business where insurable risks were insured instead of the member taking the risk.

vi. Potential group six

The Informal Dairy Traders and Farmers Association is an association of informal milk traders in Nakuru, Kenya. Nakuru town is located in Nakuru County in the Rift Valley Region. The Association is an informal cooperative movement, and its members' incomes are low and seasonal. The Association's members depend on a marginal profit from milk off-take from farmers, which is sold to consumers. They were often faced with loss of income when milk gets spoilt before being sold, "rent-seeking behaviour" from authorities, milk spillage during transit, and accidents arising from their main mode of transport (motorbikes). Some members have a few cows to boost profitability as margins on their own milk is higher.

The group depends on the Secretariat (which sits in Nairobi) for strategic direction, linkage with partners and information dissemination. They also rely on a radio programme called *Mugambo wa Murimi* (which translates as "farmers' voice") for information on feeding cows, extension officers, agricultural officers and agricultural vets. Members belong to other informal saving groups where they contribute money and get loans (for instance save USD 2 per day and get a cow after one year), and also take loans from Equitel (Equity Bank's mobile wallet). They had a strong willingness to be involved in mutual microinsurance through their cooperative. They were particularly in need of information on insurance exclusions and inclusions, indicating both distrust and curiosity.

Prior interactions with insurance

- ▶ A member of this group had a complaint about the claims process for livestock insurance many years ago; he was required to take parts of the carcass to a laboratory many kilometres away from home for inspection. He was eventually compensated for his grade cow.
- ▶ The Chairman of a local group had success with mobilising a group of about 20 people to pay for monthly contributions for the NHIF, and with fundraising to support a member faced with a misfortune eg accident or sickness.
- ▶ Accidents were probable because most members also ride motorbikes while delivering and sourcing milk. They pay for third party insurance for the motorbikes only for compliance and they didn't expect to be compensated in case of loss, believing: "I pay for the third party motorbike insurance so as not to get into trouble with the traffic police".
- ▶ One of the respondents had a monthly health insurance policy, and the premium was deducted from the respondent's Airtel mobile service provider airtime.
- ▶ New rules for ensuring milk safety have resulted in some traders investing in milk dispensing machines which may require some form of insurance.

The main risks that these members are exposed to were as follows.

- ▶ Most have young children and they indicated a need for an education policy.
- ▶ Poor farmers with weak feeding regimes (leading to a low quality of milk).
- ▶ Pre and post-election violence leading to fires, loss of life, loss of properties, theft, loss of income and displacement (the area is highly politically polarised).
- ▶ Losses due to milk spoilage and spillage during transport.
- ▶ Accidents during transport (eg during bad weather due to a lack of tarmac on roads).
- ▶ Animal deaths from diseases, wildlife attacks, self-involving accidents or stampede.

Risk coping mechanisms

- ▶ Insurance especially where it is compulsory, and the NHIF for health protection.
- ▶ Social protection through group fundraising; some of the funds raised would go to paying for family food supplies for an affected member.
- ▶ Diversification.
- ▶ Having information on insurance as they have motorbikes but prefer third party insurance due to the high cost of comprehensive insurance (Trust NHIF could bridge this gap).
- ▶ They were willing to take insurance if equipped with the right information and a culture of trust is built, as they have had bad experiences from various insurance packages.
- ▶ Migrating to safe grounds, cities and government/humanitarian camps during polarised elections/tribal clash seasons.
- ▶ Slaughtering injured or affected livestock to avoid total loss.

This study established that there is a need for the following to be done in order to achieve the scaling up of insurance uptake among this target group.

- ▶ Health insurance is valued by traders as it helps them recover from sickness and go back to working, the NHIF seems to offer value to them, the gap seems to be in relation to access to the cash to take care of other costs related to illness.
- ▶ Need for education and product awareness campaigns.
- ▶ A savings/life product for education purposes.
- ▶ Technology seems to ease access and product uptake as indicated by the NHIF M-Pesa pay bill impact and Airtel health cover.

vii. Potential group seven

The pastoralist Muslim community. This FGD was conducted with pastoralists in Wajir County located in the Northern Kenya Region. The male participants included pastoralists who kept cattle (mainly cows, goats, sheep and camels), while some were livestock traders too. Female participants mainly kept shoats (sheep and goats) since they are easier to manage.

This is a Muslim community and they were aware of Takaful insurance. Some of the members had previously taken a climate-linked Takaful livestock cover, but were ignorant about the policy's exclusions leading to confusion and dissatisfaction. Apart from Takaful insurance, they had limited access to financial services given they are located in a remote village. They mostly depended on word-of-mouth communication for information. Wajir community radio station was also considered a good information source. Their perception of insurance is that insurance companies overpromise, and subsequently do not deliver on their promises. They seemed dissatisfied with index-based insurance for settling claims given cases of generalisation where bouts of rainfall were reported in a small area and the satellite images 'generalised' an entire area as rainy, leading to lack of compensation.

Risk profile

- ▶ Loss of livestock due to drought (the weather has become increasingly erratic in recent years).
- ▶ Loss of livestock due to sickness, cattle rustling (ie being stolen) and to wild animals.
- ▶ Loss of business (for traders), when there is a drought: people travel much further in search of pasture, leading to a reduced customer population and purchasing power.
- ▶ Personal illness.
- ▶ Animal illness.
- ▶ Low milk production.
- ▶ Outbreak of plant diseases.
- ▶ Loss of cash in transit due to the use of informal cash transfer services.

Risk coping mechanisms

- ▶ Most do not have risk coping mechanisms.
- ▶ Some who were employed have the NHIF cover.
- ▶ Diversification and venturing into other small income-generating projects.
- ▶ They have limited information on insurance and feel current insurance products do not target them.
- ▶ They were willing to take up insurance especially for livestock, education and health risks if equipped with the right information, if the insurance covers the risks that were specific to them, if the insurance has flexibility and if premiums were affordable (they were willing to spend USD 5-10 monthly for health or education cover and Takaful rates for livestock insurance).

The following is required to scale up insurance uptake.

- ▶ Address the distrust and misinformation about insurance and Takaful in particular.
- ▶ Use of testimonials to demonstrate how insurance works and its usefulness.
- ▶ Insurance education needed to address misconception and to clarify exclusions.
- ▶ Tap the opportunities in livestock, education and health insurance (in that order).

4.7.3. Opportunities and gaps

This study sought to identify where the gaps in the market were, and what needs to be done to scale up microinsurance penetration within the low-income population in Kenya.

Findings from the study indicated that potential consumers were willing to take up insurance especially for livestock, education and health if equipped with the right information, if the insurance covers the risks that were specific to them, if the insurance is flexible and if premiums were affordable (potential consumers were willing to spend USD 5-10 per month for an insurance cover).

Table 4 shows the features that potential consumers of microinsurance consider to be important, therefore these are the elements that should be embraced by service providers to create appeal from the target market.

Table 4: Importance of various insurance features to potential consumers

How important is each of the following to you when you buy or consider buying an insurance policy?		
	Mean score	%
I want a company with a fast settlement of claims (maximum of one month)	7.84	78%
I want an insurance provider that monitors hospitals to make sure that the drugs offered are of the quality paid for	7.80	78%
I want an insurance cover that does not limit me to what hospitals I can go to	7.73	77%
I want an insurance policy that allows for flexible premiums	7.67	77%
I want to buy an insurance policy that has a branch in the nearby town	7.64	76%
I would like a policy that can accommodate two policies in one, eg medical but if not used, then the premiums go into an investment	7.62	76%
I want an insurance company that has a product that targets the mass market	7.50	75%
I can access health services for myself and my family without worrying about high cost	7.11	71%
I want to purchase an insurance policy from a company that I am a shareholder of	7.05	71%

Opportunities also lie in the provision of quality services, flexible premium payments, bundled products and even mutuals. Table 5 presents the existing opportunities in terms of the positive perceptions towards insurance which can be leveraged to increase uptake. The specific opportunities or needs identified included the need for education and product awareness campaigns, and a savings or life product for education. It was noted that technology seems to ease access and product uptake as indicated by the NHIF M-Pesa playbill impact and Airtel health cover.

The challenges noted were as follows: insurance was perceived as “risky”; an unwillingness to take up insurance that is not mandatory; negative industry reputation (insurers do not honour claims); and price (insurance is seen as expensive and not a priority). The following measures are necessary in order to tap the existing potential.

- a. Address the mistrust and misinformation about insurance and Takaful in particular.
- b. Use of testimonials to demonstrate how insurance works and its usefulness.
- c. Insurance education needed to address misconception and to clarify exclusions.

Table 5: Consumers' perception of insurance

To what extent do you agree with each of the following statements: Scale = 1 – 5 (5 = strongly agree)			
	Mean score	%	
Insurance is a safety net, necessary and good for everyone	3.67	73%	OPPORTUNITIES
I think that having an insurance policy would improve my life	3.63	73%	
The brand does not matter too much for me, I would rather choose my insurance provider based on good service	3.55	71%	
I place/would place a lot of importance on the advertisements of insurance policies while selecting an insurance provider	3.49	70%	
I would switch to another insurance provider whenever I get to know that it offers better deals	3.45	69%	
Insurance companies deliberately withhold information	3.20	64%	GAPS
Insurance is a risky investment	2.89	58%	
I buy/would buy insurance if mandated to by law	2.89	58%	
Insurance companies do not pay claims as promised	2.86	57%	
Insurance is expensive and I would want to avoid it	2.78	56%	
I think that my life is or would be better off without an insurance policy	2.66	53%	
Insurance is a waste of money for me	2.63	53%	

4.8. Potential areas of growth for mutual microinsurance

Eighty percent of the Kenyan population derives their livelihoods from agriculture. Of this population, more than 50% is engaged directly in a cooperative (Kenya Agriculture Research Institute, 2008). According to the Ministry of Gender, Children and Social Development, there are over 50,000 registered mutuals in the form of community-based organisations (CBOs) and self-help groups in the country (Government of Kenya, 2016). These are the easiest entry points to grow mutual microinsurance in the country due to the fact that the majority of the members of these mutuals and cooperatives are low to middle income earners.

Other than compulsory insurance such as credit life and statutory insurance, the cooperatives and mutuals employ an alternative coping mechanism for the classification of risks, and the use of social networks to deal with those risks. Findings from the *AKI Annual Report 2015* indicate that health, funeral and school fees are the most critical risks a household can experience. Other major risks include loss of crop and livestock (AKI, 2015). Social clusters demand that each member of the community contributes when a neighbour is faced with medical or funeral expenses. This follows the beliefs that “tomorrow it could be you” and “if you do not contribute for others, you are not a part of the community”.

Findings showed that the target market for mutual microinsurance is faced with many risks in life. They felt that insurance could help in managing the top three risks they faced including health, lack of school fees and disease outbreak. These were followed by loss of livestock and drought. Climate risks, such as drought, relate more to those living in the arid and semi-arid land (ASAL) areas and mutual microinsurance cannot solve the problem in its current form. Initiatives such as providing hay and water for animals when the rain fails have been found to protect the animals from death due to lack of pasture. This in turn protects the livelihoods of the pastoralist communities. Another

initiative is the germination guarantee provided by seed companies, which replaces the seeds or refunds a farmer if a certain level of germination is not achieved due to rain failure.

The diagnostic study findings demonstrate that CIC and TIA are the only two viable institutions that can formally provide mutual microinsurance. Kenyan regulation does not allow for a “bottom-up approach”, and these are the only two cooperative/Takaful licensed insurers in the market. Microinsurance is currently not working well in Kenya and there is a need for a different approach, ie giving a stake to the policyholders in the long term viability of the scheme by involving them in the ownership, decision-making and product development. Insurance on its own cannot succeed: a more holistic approach is required to improve the livelihoods of communities and lower their risk profile. CIC and TIA would be key towards expanding mutual microinsurance in Kenya especially given their high network of potential microcredit customers and Islamic clientele respectively. Those using microcredit covers are key by virtue of being users of microfinance products and because they are already members of organised groups. This category of people also has a high affinity for microinsurance.

The diagnostic study findings also indicated that a large proportion of the target market for mutual microinsurance have membership in organised groups. Almost a third of the potential target group belonged to SACCOs (27%), this was followed by investment clubs (22%), youth groups (19%), welfare groups (14%) and women’s groups (12%) among other types of mutuals (as shown in Table 6).

Table 6: Top groups or organisations that the potential target market for mutual microinsurance belong to

SACCOs	27%
Investment clubs (<i>chamas</i>)	22%
Youth groups	19%
Welfare groups	14%
Women groups	12%
Bodaboda (motorbike) riders	7%
Women and youth enterprises	5%
Business associations	4%

5. CASE STUDIES

5.1. Case study selection criteria

ICMIF's selection criteria for organisations to be used as case studies for this report into the landscape of mutual microinsurance in Kenya was customised by the research team and approved by the ICMIF Development Committee for use in Kenya.

The criteria was as highlighted below.

- ▶ A mutual organisation, or an existing pilot.
- ▶ Uninsured (excludes the National Hospital Insurance Fund (NHIF), and credit life users).
- ▶ Good governance, management team and infrastructure.
- ▶ Ability, ambition and willingness to commit resources.
- ▶ Evidence of outreach to reach the marginalised population and a focus on the “base of the pyramid”.
- ▶ Sustainability; they agreed to create a sustainable model of mutual microinsurance.
- ▶ Capacity and willingness to enter into a partnership with ICMIF and the country project team.
- ▶ Tailored solutions addressing the needs of low-income households and marginalised society.
- ▶ Free and fair elections.

5.2. Case study groups

The organisations that were studied as case studies are as follows.

- ▶ Index-Based Livestock Takaful (IBLT)
- ▶ Naitiri Dairy Farmers Association
- ▶ Githunguri Dairy Farmers Co-operative Society (Githunguri Dairy FCS)
- ▶ Kipkellion Coffee Mill
- ▶ Muramuki Coffee Cooperative

5.2.1. Naitiri Dairy Farmers Association

a. Overview of the organisation

Naitiri Dairy Farmers Association (NADAFA) was started in 2008 as a community-based organisation (CBO) by a group of 32 retired teachers. The CBO was started with a mission to unite and market dairy produce for farmers in the area given that dairy farming was and remains their major source of income. The dairy farmers previously sold their milk individually and thus received poor prices. The formation of the CBO enabled them to bargain for better prices and start pooling resources to improve their livelihoods.

By 2011, the CBO had grown and was elevated to a Dairy Farmers Association with the purpose of expanding services offered to members. The association introduced farm services to farmers, such as extension services, artificial insemination services and the supply of feeds and other farm inputs. NADAFA currently has 5,000 registered members with 2,400 actively using the association's services. Members' activity is determined by the continuity of their supply of milk to the dairy. Active members have consistent supply records and often access other services from the dairy such as cash advances, inputs on credit etc. The major cause of inactivity has been reported to be due to the supply of milk to alternative markets for better prices or quicker payments (ie middlemen will collect the milk from the farm and pay cash). The members are drawn from Bungoma, Trans Nzoia and Kakamega counties in Western Kenya region. Sixty percent of the members are women, 20% are youth and 20% are men. The large composition of women is due to the fact that women often own or are in charge of the animals while the men have other sources of income through casual labour, formal employment or farm resources.

b. Members' profile

The Association identified the major risks faced by their members as loss of livestock and funeral expenses. With the lack of an informal system to take care of these risks, the management sought insurance solutions from CIC Insurance Group (CIC) through their microinsurance partner, ACRE Africa.

c. The *Linda Mifugo* programme

The sudden death of a cow can have serious impacts on a family's livelihood. The loss of the main income earner also causes devastation particularly for low-income households. NADAFA farmers are smallholder farmers whose livelihoods are heavily reliant on dairy production. In Western Kenya, funeral expenses are a key consideration for households. These risks prompted NADAFA to seek risk mitigation solutions for their members. Together with NADAFA, CIC and ACRE Africa custom-developed a product called *Linda Mifugo* (Swahili for "take care of animals"). The product is a mortality cover designed to shield the farmer from financial losses arising from the death or injury of the dairy cow. The *Linda Mifugo* cover helps a farmer recover through financial compensation to purchase a new cow. The cover also has a funeral expense benefit added on to it to take care of any funeral expenses if the owner dies.

d. The partner model

NADAFA acts as an aggregator for dairy farmers across three counties. The dairy offers the insurance partners market access to farmers by arranging insurance training forums targeting their farmers. The dairy extension staff who have daily contact with the farmers are also trained on insurance to act as "trainers of trainers". This model ensures the constant flow of information to the farmers. The mistrust of insurance companies and products has been a great hindrance to insurance uptake particularly with smallholder farmers in the past. The partnership with NADAFA gives assurance to the farmers and eases the process of uptake since the extension staff also have credibility with the farmers in terms of advising farmers on the value of insurance. This approach of administering the insurance policy through already established management and service structures without having to make time-consuming fundamental changes makes it easy to scale. Building capacity in the dairy extension teams is instrumental in reaching out to the farmers, for processes such as insurance registration, health training, and claims verification.

Figure 10: The partner model for NADAFa



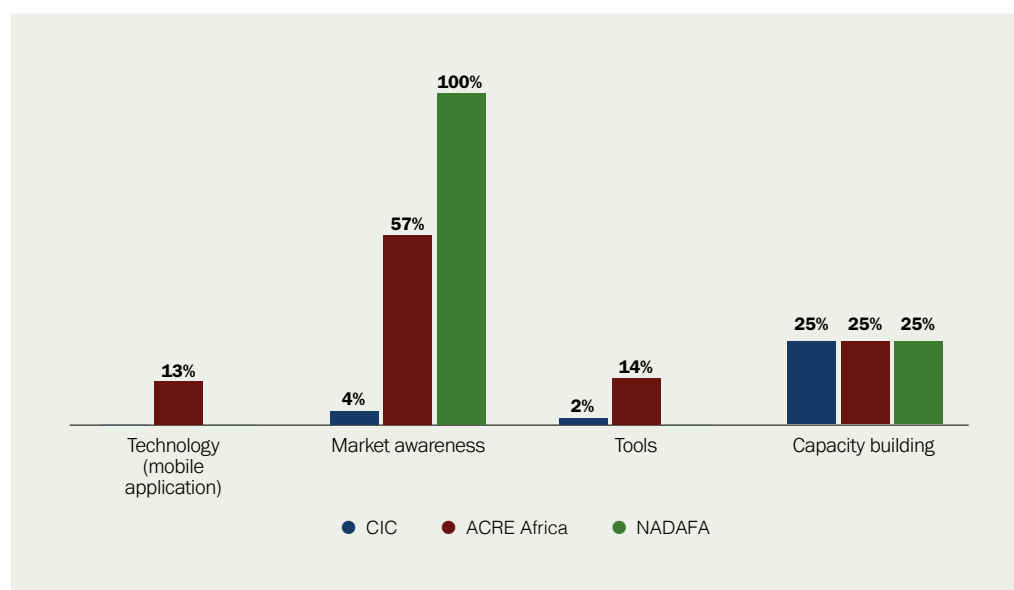
Table 7: Key processes for NADAFa

Process	Description	Carried out by
Product development	Review of farmers’ needs and risks, and customising the existing product	NADAFa, ACRE Africa and CIC
Product training	Training NADAFa management and field staff on the product, ie what is covered, what is not covered, and compensation levels	ACRE Africa and CIC
Systems training	Training NADAFa management and field staff on systems usage, underwriting processes and claims processes	ACRE Africa and CIC
Capacity building	Training farmers on insurance and good animal husbandry practices, including record keeping and the value of vaccinations	ACRE Africa and CIC

e. Support from the partners

ACRE Africa, a microinsurance designer with specific focus on smallholder farmers, teamed up with CIC to custom-develop a package for NADAFAs farmers. ACRE Africa also brought on board technological support with a mobile-based platform to ease the process of insurance sign-up and optimise efficiency. Together with the NADAFAs team, ACRE Africa and CIC conducted training for the management and extension staff teams to enable them to promote the insurance policy and sign up farmers. The teams shared expenses incurred to design and print promotional materials (brochures and posters) to be distributed to create awareness. Other resources contributed by the partners included smartphones for extension officers to use when registering farmers and animals using the livestock mobile application.

Figure 11: Partner resource contribution for Linda Mifugo



f. Impact of the Linda Mifugo programme

Since July 2016, the team drawn from CIC, NADAFAs and ACRE Africa have been training farmers on insurance and record keeping, ie what insurance is, how it works, why it is valuable to them, why they should take up this policy and adhere to the “care calendar” (refer to Annex 1).

g. Reasons for success

This model has shown success and potential for scaling up due to the value proposition presented to all parties involved.

Farmers will benefit from:

- ▶ relief from financial losses arising from funeral expenses due to death of the insured or death or injury of the productive livestock;
- ▶ access to information on how to increase productivity and record keeping;
- ▶ ability to use insured livestock as collateral to access better credit facilities; and
- ▶ access to coordinated vaccination due to collective bargaining.

NADAFa will benefit from:

- ▶ differentiation from other dairies through insurance for their farmers;
- ▶ generation of income through administrative fees; and
- ▶ social impact for their farmers.

CIC will benefit from:

- ▶ increased portfolio of insured households; and
- ▶ increased revenue.

ACRE Africa will benefit from:

- ▶ social impact; and
- ▶ increased revenue.

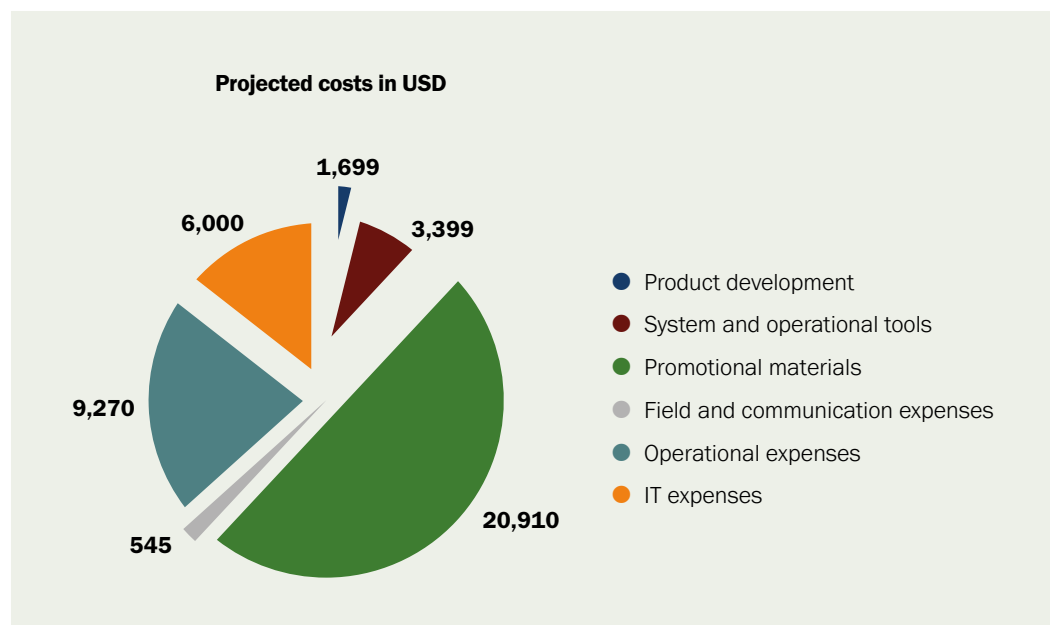
h. Business case

NADAFa has a total of 5,000 registered farmers with 2,500 actively producing. The average number of producing animals is recorded as 3,500 (as at June 2016). Each farmer has at least one cow valued at an average of KES 50,000 (USD 500). The potential outreach is the total 5,000 (members and any individual dairy farmers) in the locality where the dairy operates. The majority of smallholder dairy farmers are attached to dairy farmers' associations/cooperatives or CBOs for ease of marketing milk produce or collective bargaining power. The presence of these organisations makes it easy to cost-effectively offer solutions such as extension services, information and insurance.

Table 8: Business potential for NADAFa

No. of insurable households	2,500
Total insurable livestock value (USD)	1,250,000
Premium payable (USD)	43,750

Figure 12: Distribution of expenses incurred to acquire business through NADAFa



i. Sustainability

Dairy production in the region covered by NADAFa is continually growing, with many farmers gradually shifting from crop to dairy production. The Bungoma County Government has been promoting the value of dairy production to young farmers by presenting the idea of monthly income, compared to an annual income from maize production.

With support from the Agriculture Sector Development Support Programme (ASDSP), a government programme, NADAFa has implemented a digital programme for optimising efficiency in monitoring deliveries and payments.

For this reason, NADAFa has been increasing their membership annually. Members are required to contribute to their shares on a monthly basis. This ownership by the members gives the association continuity and financial stability. The members also take part in decision-making and governance through annual elections and other special general meetings when passing major decisions.

j. Challenges

i. Premium payment

The pilot insurance model has exhibited success due to the option for farmers to either receive premium financing or make individual payments. However, the credit advanced to the farmers is short term which makes it difficult for a rapid uptake of insurance since some farmers feel it would be best to save up the premium and only sign up when they have saved enough. The inability of being able to pay premiums in installments of up to 6 months has been voiced as a challenge to this model by the farmers and the NADAFa management.

ii. Cost of market awareness activities

Livestock insurance is still a foreign concept to smallholder farmers with most of them believing that only high value and pedigree animals qualify for insurance. To achieve greater numbers in insurance uptake in this market, there is a great need for intensive and continuous market education and awareness. The margins on livestock insurance are very minimal and the costs of awareness very high. For this reason, only partial market awareness has been conducted which relates to slow uptake.

iii. Required to scale

The NADAF management is interested in long-term relationships with partners who share in their objectives of uplifting farmers and creating sustainability through dairy production. Focusing on scaling the dairy insurance product into a sustainable business product line, NADAF is in the process of setting a Financial Service Association (FSA) to provide longer credit lines to their members not only for insurance premium financing but also for herd increments through purchasing high value and improved pedigree dairy cows. To achieve scalability on insurance uptake, the support required is categorised as follows.

Table 9: Support required for scaling Linda Mifugo

Financial support	Technical support
Market awareness	Mapping of service providers
Subsidies or zero-rated loans to enable installments	Capacity building for dairy extension staff, vets and farmers

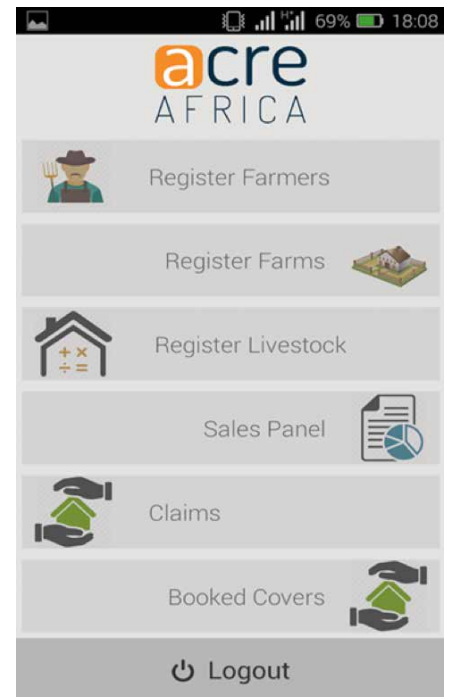
A detailed description of the Linda Mifugo product is illustrated in Annex 2.

k. The livestock mobile application

Livestock insurance has been available in the Kenyan market for years, but the uptake is still minimal. One of the reasons for the minimal uptake of livestock insurance has been the process and the cost of the insurance. The cost of paperwork and time spent to sign up one farmer has been too high which in turn was reflected in the cost of the insurance premium. To reduce these administration expenses and make the process easier, ACRE Africa has developed a mobile application to be used to register farmers' and animals' details as well as to ease the sale of these insurance policies. This application, which runs on Android-based smartphones, allows ACRE Africa and the underwriters to create different user roles. The main users of the application are as follows: veterinary officers (who register farmers, cows and conduct the health assessments, valuations, tagging, vaccinations and post mortems); field insurance sales officers; ACRE Africa officers; and underwriters. The application is tied to a USSD code which allows the farmer to use their mobile phones to report a claim, ensuring a timely dispatch of the veterinary surgeon for post mortem.

I. Benefits of using the application

- 1. Reduced administration expenses:** including the processing of paperwork (such as proposal forms and claim forms) and courier services (when the paperwork has to be sent to the nearest insurance office for processing).
- 2. Timely process flows:** The application is web-based which makes it possible for the farmers' details collected in the field to be viewed and acted upon by the next officer in the value chain.
- 3. Data collection and storage (database):** Improvement of the livestock insurance policy is dependent on the availability of claims/mortality data. The livestock application makes it possible to have a detailed database of the livestock in each region/dairy hub (a "dairy census") which has a number of uses, eg economic planning and vaccination planning.
- 4. Partner linkages:** The application brings together different partners involved in the process of livestock insurance. These include: veterinary officers, insurance companies, insurance service providers (ACRE Africa), dairy hubs etc.
- 5. Advisory messages for better animal husbandry and improved production:** The database enables partners to have access to an information-sharing platform which can be used to send text messages to farmers via mobile which are related to improved dairy production.



ACRE Africa mobile application

m. Care calendar and record card

For optimal dairy cow health, increased productivity and reduced risks, ACRE Africa and partners train farmers to adhere to a care calendar. Routine vaccinations, tick control, deworming, and mineral supplements are vital in preventing common causes of death and to ensure a healthy and product cow (refer to Annex 1).

n. Impact

The key successes are improved record-keeping on animal production and health, improved milk production, and improved access to financial services through the use of insurance as collateral for loans.

Table 10: Impact of Linda Mufago for NADFA

Number of households	Number of animals	Economic value of animals (USD)	Premium paid (USD)
237	315	230,000	8,200

5.2.2. Index-Based Livestock Takaful (IBLT)

Model description

The term Takaful comes from the Arabic verb *Kafalah* meaning “mutual guarantee”. The concept of Takaful insurance is based on the principles of togetherness, cooperation and mutual solidarity. Takaful Insurance of Africa (TIA) operates as a mutual insurer, where the policyholders share in the surplus and losses at the end of the insurance period (the *Ushirika* model).

TIA was introduced in Kenya in 2008 to provide risk management and financial security services founded on ethical principles and values.

Target beneficiaries: Pastoralist (livestock farmers) communities in arid and semi-arid land (ASAL) areas

Number of beneficiaries: By September 2016, over 7,000 households were registered, with 105,886 animals (including cows, sheep, goats and camels) covered by an insurance policy.

a. Background on TIA and CIC

CIC Insurance Group (CIC) started off as an insurance agency in 1968, as a department within the Kenya National Federation of Cooperatives and in 1978, it was licensed as a composite insurance company to write all classes of business, trading under the name of Cooperative Insurance Services (CIC Insurance Group Ltd, 2012)

The company grew when it was rebranded to The Cooperative Insurance Company of Kenya Limited (CIC) in 1999. In 2010 the company changed its name to CIC Insurance Group Limited, and by 2011 the following subsidiaries were established.

- ▶ CIC Life Insurance Limited
- ▶ CIC General Insurance Limited
- ▶ CIC Asset Management Limited

Since its formation, CIC has been providing flexible insurance and financial services tailor-made to the needs of their customers. Through the provision of innovative and tailor-made products, CIC has established itself as a solid company and a trusted insurance and financial services provider.



ABOVE Mr Hassan Bashir, CEO, TIA

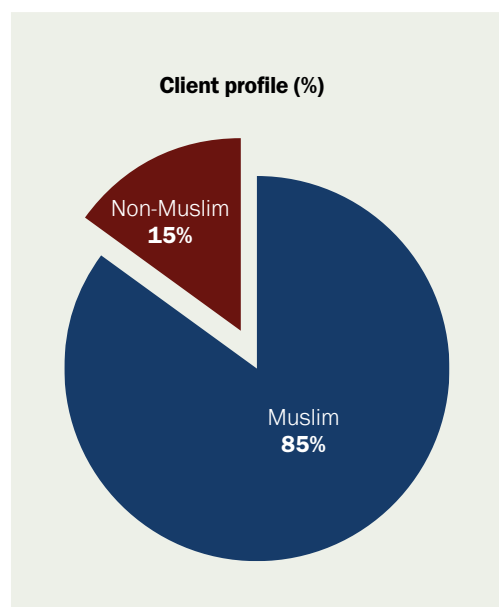
TIA was first initiated in Kenya in 2008 and officially licensed in 2011. In January 2011, CIC helped to launch TIA, the first Takaful insurance company in East Africa. CIC are the lead shareholder in TIA with 32% of the share capital. TIA was launched to provide innovative risk management solutions based on ethical principles adherent to Sharia law, and was expected to grow on the back of the large microinsurance potential in the Kenyan market, to the degree of 11 million people (TIA internal data, 2017).

Currently, TIA has 91 agencies and 10 branches in Kenya distributing Takaful insurance products. Agents and branches are located in the Nairobi, Coast, North Eastern and Upper Eastern counties.

TIA has a range of products available in the market including health, vehicle and agricultural insurance. The success achieved with the livestock insurance pilot is the basis of this study. Although Takaful insurance products and services are built and operated on the doctrines of Sharia law, they are not exclusively for people of the Muslim faith. The organisation targets:

- ▶ the Muslim community who had not purchased insurance products because of reasons associated with conventional insurance models; and
- ▶ the rest of the Kenyan population.

Figure 13: Index-Based Livestock Takaful (IBLT) client profile



Refer to Annex 3 for a more detailed product description of IBLT.

b. The Takaful concept: TIA's Ushirika model

The term *Ushirika* is Swahili for "partnership". Sharia law prohibits activities involving *Riba* (interest), *Maisir* (gambling) and *Gharar* (uncertainty). For this reason, TIA operates differently from conventional insurance companies focusing on risk and profit sharing, instead of risk transfer and maximising shareholder value. TIA uses the premium contributed by each policyholder to build a fund and then manages this fund through the concept of *Tabarru* (donation) to pay any losses and meet operational expenses. The surplus from the fund is then either used to grow reserves or is shared with the policyholders as a profit. This different mode of operation means that TIA has had to manage operations in line not only with the Insurance Regulatory Authority (IRA) but also with the Sharia Supervisory Council who serve to ensure obligations to policyholders are met.

c. Index-Based Livestock Insurance (IBLI)

Index-based insurance is based on a specific parameter (in this case forage availability) measured over a specific period of time at a specific locality via satellite. Such products are preferred over indemnity due to the way in which the loss is confirmed. Insuring pastoralist livestock is difficult due to the remote, isolated areas where the pastoralists are located as well as the lack of infrastructure. Pastoralists are exposed to a broad range of risks, including diseases and scarcity of resources, in particular water.

d. Index-Based Livestock Takaful (IBLT)

IBLI is an insurance policy designed to help protect pastoralists and their livestock against the effects of prolonged forage scarcity. The IBLI product was developed by the International Livestock Research Institute (ILRI) together with other partners with the aim of managing the risks faced by pastoralists. IBLI initially started as a mortality cover, but was later switched to a forage deterioration cover, making the product an asset protection cover. IBLI serves to protect the pastoralists from loss of livestock due to forage scarcity by making payments before the onset of droughts to enable the pastoralists to buy food their livestock and therefore keep their animals alive.

TIA distributes the IBLI product, branded as IBLT, using technology and an agency model (refer to Annex 4) with local shops as sub-agents. The Takaful mobile application (refer to Annex 5) was developed to ease the process of registration and increase efficiency in the delivery of the product. The aspect of geographical isolation when issuing this cover and the lack of infrastructure in the remote areas where the pastoralists are located is taken care of through the application. TIA incurs the cost of purchasing the smart phone. TIA also engages several partnerships to ensure market penetration and uptake of the product. This partnership model involves engaging local business owners as sub-agents to distribute the insurance policies in areas close to the pastoralists. The use of these local businesses also invokes confidence by the consumers with the product, due to the trust shared between them and the local business owners.

e. Regulations

Takaful is recognised in Kenyan law as a model for risk management. TIA is licensed by the IRA under the Insurance Act Cap 487 and in line with the Takaful Operational Guidelines: TIA's model has been approved by the Sharia Council. Being the first fully Sharia-compliant insurance body in Kenya, TIA operates as a guide and point of reference for regulatory measures. The Sharia compliance prohibits engagement in activities involving interest, gambling and uncertainty. This therefore means that investment opportunities for TIA are limited. There are other restrictions which form an avenue for TIA to influence change not only in insurance but also in other financial products including pensions, through the Takaful Group Provident Fund, and the money market through Kenya's Capital Markets Authority.

f. Impact

Since its inception, TIA has insured over 7,000 households through the IBLT product. Fifty three percent of the insured are men while 47% are women. The TIA product does not qualify the clients in terms of age, which makes it difficult to determine how many of the insured are young or old. The product has been piloted in seven counties (Mandera, Marsabit, Wajir, Moyale, Garissa, Isiolo and Tana River). The insurance premium is subsidised by up to 40% with the ILRI covering the subsidy from window one (August/September 2013) to window five (August/September 2015).

Figure 14: IBLT policy distribution per county from August 2013 to February 2016

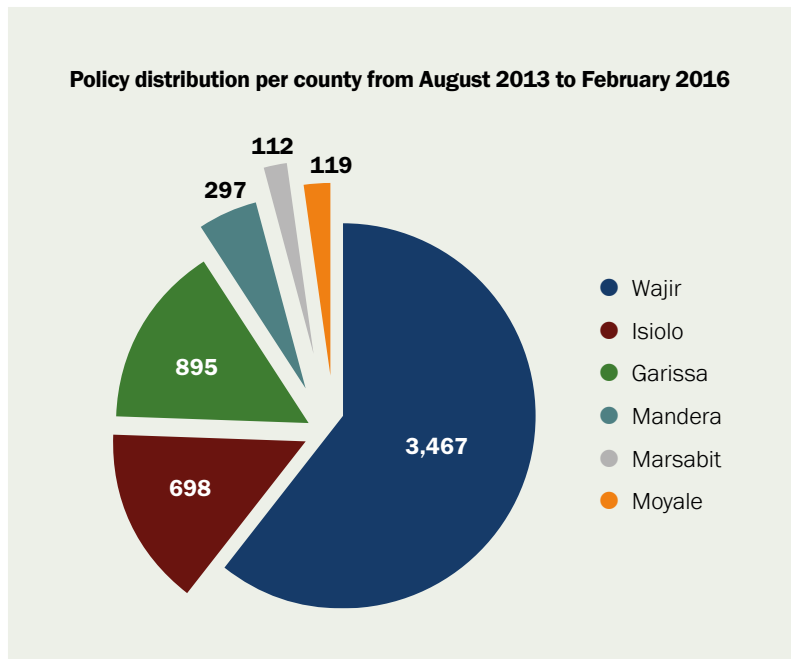
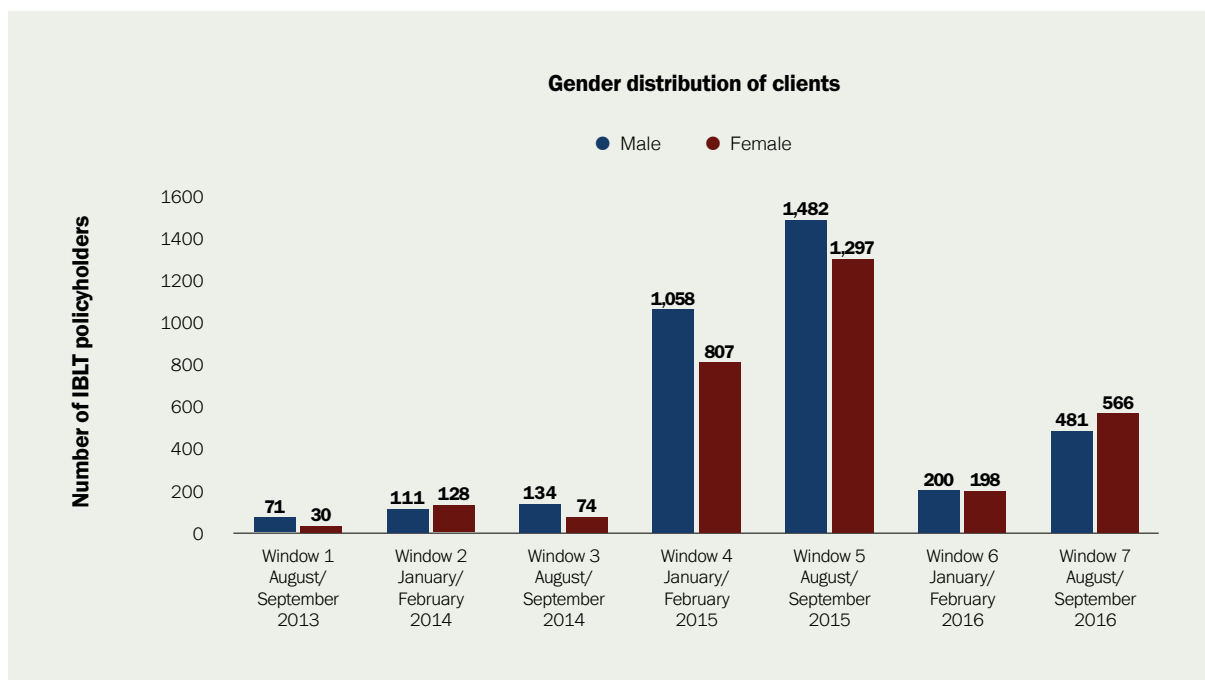


Figure 15: Gender distribution of IBLT policyholders

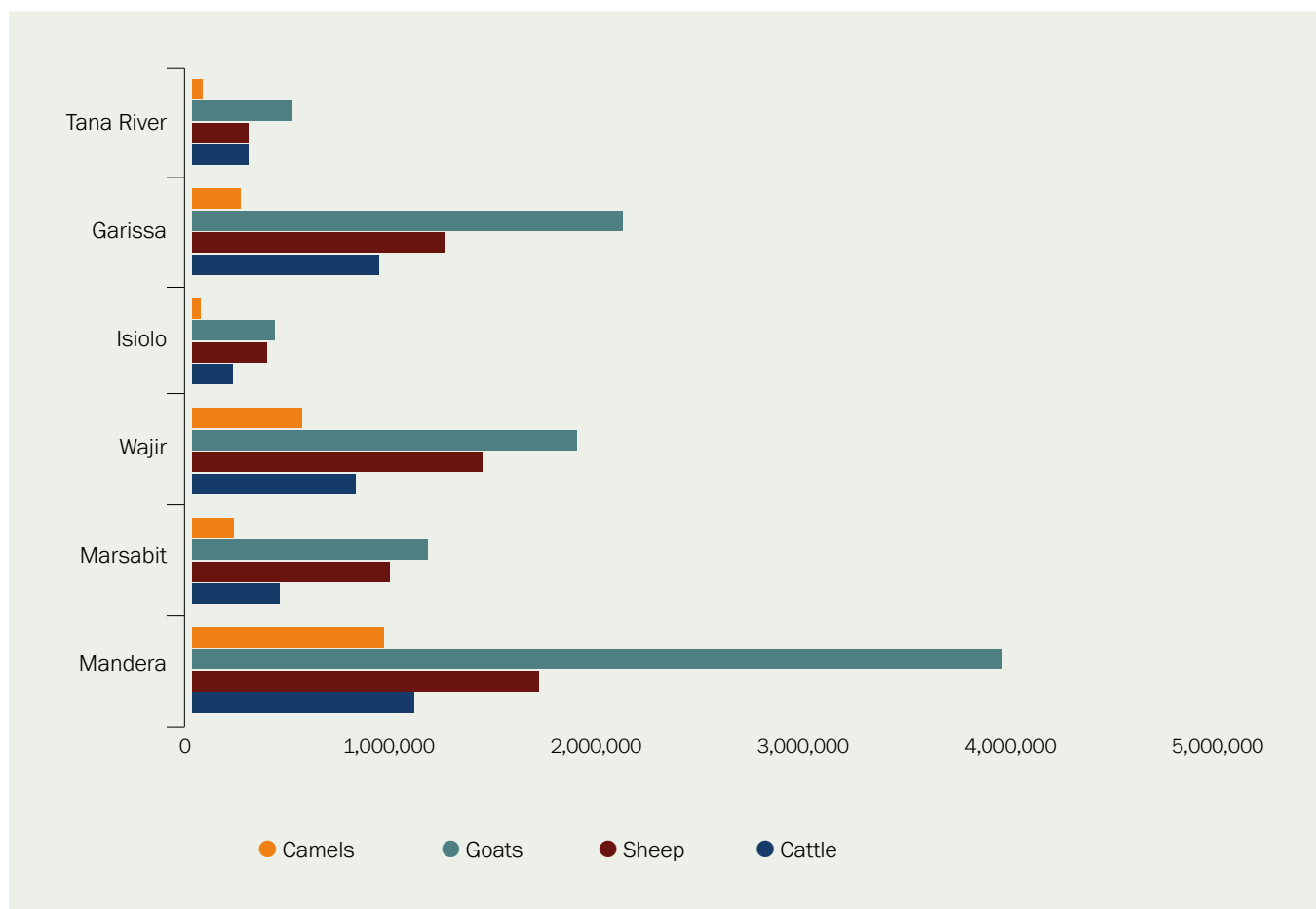


Generally, the IBLI policyholders reported overall satisfaction with the product and the cost, however, they felt as if it was a waste of their money to pay a premium which was only valid for one year. They also said fellow pastoralists felt disgruntled when it appeared as if those who took the cover in recent seasons were the ones receiving a payout. More feedback is presented in Annex 6.

g. Sustainability

Eighty percent of Kenya's land is classified as ASAL. These areas are occupied by 30% of Kenyans, who own 50% of the livestock in the country. Due to climate change, the frequency and intensity of drought has been steadily increasing, making the ASAL inhabitants more vulnerable. Comparing the 2009 livestock census with the numbers insured under the IBLT pilot programme, TIA has covered 0.5% of the livestock in the six counties. While the census numbers may have changed either upwards or downwards, the potential is still very high (Kenya National Bureau of Statistics, 2010).

Figure 16: 2009 Kenya livestock census statistics



Source: Kenya National Bureau of Statistics (2010)

h. Challenges

The distribution of IBLT has faced numerous challenges. These include the following.

- ▶ **Language barriers:** The communities targeted for this product live in remote areas where languages spoken are primarily mother tongue languages (such as Borana, Somali and Oromo, among others). The areas also have very low levels of literacy, which translates to poor or no understanding of the products. This makes the uptake process very difficult and very slow. Although TIA has taken steps towards creating market awareness, the literacy problems continue to pose a challenge as product training activities have to continue over long periods of time to ensure that the community understands the product and value offering. This leads to another challenge in terms of high costs. The agents and sub-agents also have to train and sell product in their local languages. This opens up a loophole for information to be either lost in translation or misunderstood.
- ▶ **Geographical coverage:** The location of the pastoralists, in remote villages which are far from basic infrastructure (such as roads, mobile networks, radio and TV networks), makes

the distribution of information about the products, and ensuring this information is fully understood, especially difficult for TIA. The isolated locations also make travel a challenge, particularly for lead agents as the rough terrain leads to high vehicle maintenance costs, and the long distances mean that agents cannot cover much ground during awareness-raising activities. This all translates to very high costs.

- ▶ Post-season incentives for agents: IBLT has two sales windows per year (January/February and August/September). This translates to four months of active selling and commission-earning and eight months of no income generation. The sub-agents, being business owners, are interested in income generation which makes it very difficult for TIA to keep them interested during the eight-month window, yet TIA cannot afford to sign up and train new sub-agents every season.
- ▶ Technological barriers: The pastoral communities have limited access to technology. The pastoralists indicated that the lack of literacy contributes to this problem leaving them to rely on a few members of the community to transact for them, and are reliant on trust. The fact that the IBLT product is being distributed using the mobile application and the mode of payment is also tech-based makes the process difficult for pastoralists.

i. Solutions

- ▶ TIA has engaged a lot of partners to support its efforts in training forums and the media to push information about the product to the consumers, such as how it works and how to purchase it. Existing partners include ADESO, Solidarite International, Mercy Corps and Kenya Markets Trust, among others. These organisations contribute towards awareness-building efforts through funding media campaigns, sharing logistical support when attending farmer forums, and inviting TIA to train pastoralists through their own forums. These training sessions have aided the issue of information lost in translation by making pastoralists aware of what they should expect from the IBLT product.
- ▶ The basic concept of Takaful as a Sharia-compliant product brings in the component of trust in accordance with religious beliefs. This eases the issue of technological barriers as the community retains trust by being socially and religiously obligated.

j. What is required to scale up IBLT to reach more low-income pastoralists?

TIA has a long way to go in administering the IBLT insurance product. The market potential is vast and untapped. However, to achieve a magnitude of scale, the following support is needed.

- ▶ Enhancement of existing market awareness campaigns (for example through local radio campaigns or “camel caravans”).
- ▶ Enhancement of community training on the product features and benefits.
- ▶ Intensive capacity building for the communities through services such as veterinary services and borehole sinking among others.
- ▶ Logistics support (such as motorbikes for agents and training of local trainers to take care of the language barriers).

5.2.3. Githunguri Dairy Farmers Co-operative Society

a. Overview of the organisation

Githunguri Dairy Farmers Co-operative Society (Githunguri Dairy FCS) does not currently have any method of providing insurance to its members. However, they provide resources such as farm inputs and animal feeds, ensuring members have access to basic necessities.

CIC Insurance Group (CIC) propose to reach them with the Linda Mifugo livestock microinsurance, which was pioneered by ACRE Africa in partnership with CIC. The programme involves partnering with dairy cooperatives to reach their membership of smallholder dairy farmers in Kenya, in order to provide risk protection solutions for farmers, as well as risk mitigation through improved animal husbandry practices.

The programme utilises a mobile-based platform for the registration and distribution of insurance and claims management, in order to reduce the cost and time involved in the process.

Target beneficiaries: Dairy farmers in Kiambu County who sell their produce through the cooperative, and members of the Githunguri Dairy SACCO.

Number of members/target beneficiaries: Over 23,000 members, with many interested in joining, however membership has been capped to prioritise the needs of the existing members.

Geographic coverage: Kiambu County, central Kenya.

Organisation's willingness to scale or start mutual insurance: The cooperative has expressed willingness to partner with CIC and ICMIF to begin offering mutual microinsurance. The brand of milk produced by the cooperative, Fresha Milk, is amongst the top five brands of milk in Kenya, which suggests they are a unique cooperative. (The name Fresha was derived from the fact that the cooperative is the nearest source of milk to the Nairobi market.)

b. About The Githunguri Dairy Farmers Co-operative Society

The Githunguri Dairy FCS was formed in 1961 by 31 dairy farmers to collect and market their members' milk. These were disgruntled dairy farmers who decided to contribute KES 1 each for every litre of milk sold, and registered as a cooperative in 1961. Originally, the idea was to find a lasting solution to the persistent volatility of the price of milk. But the more they persisted with the venture, the deeper they sank into financial difficulties, forcing them to increase their contributions from KES1 to KES 2. This hardened their resolve to continue. Today, the cooperative has over 23,000 members and its collection centres have expanded from one to 68. It produces about 170,000 litres of milk each day. In 2015, it grossed KES 6 billion (USD 60 million) in annual turnover.

Mission statement

To maximise stakeholder value by providing high quality brands to the market.

Vision statement

Real farm freshness for all.

c. Governance

The Githunguri Dairy FCS is governed by a board of nine directors, each of which are elected for a term of three years and a third of them retire annually: they have a five year strategic plan which is reviewed each year. The cooperative was formed as an initiative to help smallholder dairy farmers of Githunguri to market their milk. In July 2004, the cooperative commissioned its own milk processing plant, and was able to access a broader market and offer a wider range of dairy products. The investment resulted from members contributing USD 0.02 for every kilogram of milk sold. Currently the cooperative has over 23,000 registered members, with an annual turnover of over USD 60 million and produces an average of over 230,000 kilograms of milk per day. Members practice a “zero grazing” method of dairy farming, whereby cows are entirely confined and their feed is brought to them. Factors of production such as feeding, disease-management, breeding, and general animal husbandry practices are closely monitored under this system.

With time, the cooperative has overcome challenges such as a lack of market for members’ milk, an initial perceived risk of inadequate quantities of milk, problems in milk collection and transportation, and the failure to offer attractive incentives for dairy farmers in the area to join the Society. In fact, the demand to join the Society from new dairy farmers is overwhelming. It has now overstretched its capacity and is no longer accepting new members even if they fulfill all the requirements.

d. Leadership

The leadership of Githunguri Society believes in professionalism and excellence in its staff, and has invested in some of the best trained staff in the country. All the senior managers are of a master’s level of education in their respective disciplines.

e. Githunguri Society's outreach and benefits to members

Milk collection, processing and marketing are the core activities for the Society, but it also provides other services such as supply stores (mainly for animal feed), and artificial insemination services for members’ animals. The stores also provide food for members’ families, which has brought gender empowerment for women (as men are no longer able to squander scarce family resources as their families can access them first through the stores), hence there is an improved motivation for the family to produce more milk. Services to members are not only reasonably priced but are also offered on a credit basis. Being able to source goods and services from their own cooperative society also contributes to the consolidation of the farmer member’s wealth, as the monthly stores’ turnover would otherwise be going to other enterprises. The stores therefore have a multiplier effect on total milk production and per capita income for the Society’s dairy farmer members.

f. Service improvement for Society members

Githunguri Dairy FCS has improved and expanded services to its members, including an expansion from 15 stores in 1999 to 33 stores in 2006, with a monthly turnover of USD 250,000. These are strategically placed to serve its members with livestock feeds and home consumables such as maize flour and sugar.

Services are available to members on credit depending on milk deliveries to the Society. Other than milk collection and the provision of services to members through the network of stores, the Githunguri Dairy FCS also processes and markets members’ milk, offers artificial insemination services, and provides extension and training to its members and staff. Besides the dairy processing plant that runs on a “for-profit” basis, the Society’s other activities are provided on a non-profit basis, but are managed as cost-centres where each activity and/or store is fully accountable for its expenditure and revenue.

g. Other outreach services offered to members

The Githunguri Dairy FCS’s management believes in continuous learning for its members and over 300 staff, who are committed to their work of producing excellent results for the Society, its customers and the Society’s members. The cooperative offers extension services on a continuous basis and conducts, on average, 12 monthly training sessions per year. The Society’s members

are grouped into nine milk catchments zones for extension and training purposes and each zonal group is offered training at least once every month. A training-needs assessment for staff is used to devise an annual plan for all staff training.

The members' needs assessment is done in a participatory way to address the areas members need training in. Topics covered during these members' training sessions include the following: breeding (heat detection and record-keeping); clean milk production; farm planning; agricultural business; crop husbandry; animal diseases; and disease prevention.

The Society's interventions through extension services and member training have improved milk production in Githunguri. Other than increasing the workload for the women and other family members, the improved dairy herd management has resulted in increased efficiency. For example, the selection of better animals, better quality feeds and improved management will produce more milk per unit of labour.

h. Challenges

Members lack formal insurance inclusion. This implies that members' livelihoods are still affected by many challenges, which are as follows.

- ▶ Other risks: Even with the reasonable returns from the sale of their milk, members' income is sometimes diverted to cater for medical bills, pay school fees and occasionally cater for funeral expenses, and these costs impact on members' living standards.
- ▶ Fluctuating incomes: When drought strikes, milk production is effected resulting in reduced income levels.
- ▶ High production costs: In absence of a government veterinarian to attend to their animals, the farmers may incur losses such as a death of the animal, reduced milk production, and miscarriages due to the high costs involved in treating the animals.

i. Current insurance model

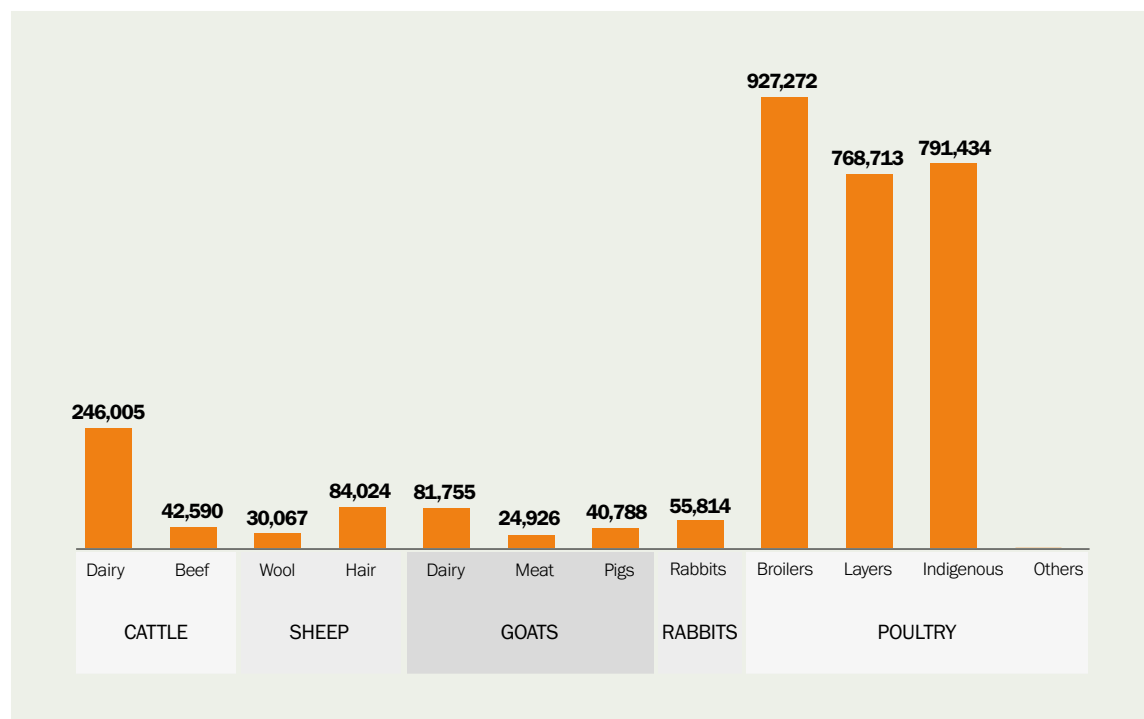
The Githunguri Dairy FCS does not have any insurance model currently and perceives that there is a need to form partnerships that will enable the Society to extend the following forms of insurance to its members.

- ▶ Education
- ▶ Medical
- ▶ Theft
- ▶ Livestock

The management and members of the Society overwhelmingly appreciate the need for insurance and show willingness to partner and offer affordable solutions whereby the cover is charged directly from proceeds. There is a need for technical and financial support to operationalise an insurance agency, train members on dairy farming "as a business" which includes insurance, and develop insurance policies that are relevant to the members' needs.

Kiambu County, where the cooperative is based, has a domestic animal population of over 3 million (refer to Figure 17). This is a big opportunity for livestock insurance if the potential market would appreciate the value of insurance. Kiambu County is also the largest producer of milk in Kenya.

Figure 17: Mainstream domestic animal population in Kiambu County, Kenya



Source: Government of Kenya (2014)

j. The Linda Mifugo programme

This programme is well explained in the NADAFa case study. The product was developed to mitigate the financial risk to farmers in the event of the death or emergency slaughter of the cow. The cover ensures that the farmer quickly receives compensation so they can either repay the outstanding loan on the cow or purchase a comparable replacement animal.

SBO Research, ACRE Africa and CIC approached the management team of the Githunguri Society who agreed to partner with them in addressing the insurance needs of their members. It was agreed to use Linda Mifugo, as this livestock product would be relevant to their members.

k. The partner model

The Githunguri Dairy FCS has a total of over 23,000 active farmers. When the programme is fully rolled out, the cooperative will offer the insurance partners market access to farmers. This involves training the Society's staff on insurance, in order for them to train and sign up the farmers, as well as training the credit team for them to finance the farmers' premium payments. This model ensures a constant flow of information to the farmers.

The partnership with the cooperative removes the element of distrusting insurance companies, which has been a great hindrance to insurance uptake particularly with smallholder farmers. This approach works to administer insurance through already established management and service structures without having to make time consuming fundamental changes to the organisation. Building the capacity of the Society's staff is instrumental in reaching out to farmers, insurance registration, health training, and claims verification. It was also proposed to provide farmers with training where insurance is an element in businesswise modern farming practice.

l. Support from partners

The Linda Mifugo model was crafted to include resource contribution from all partners to ensure its success. CIC's contribution will include: market awareness, product training, underwriting and claims processing. ACRE Africa will provide a mobile application to be used for the administration of insurance and focuses on aspects such as product training, systems usage, awareness creation/ capacity-building and the registration of farmers. SBO Research will train farmers on farming as a

business and modern farming practices (which will include practices that are not rain-dependent, to ensure sustainability for the farmer). During the pilot programme, SBO Research, ACRE Africa and CIC will conduct training sessions for the Society's management and extension staff teams to enable them to promote the insurance policy, sign-up farmers and on conducting farming as a business. Expenses which are shared between the partners will include the design and printing of promotional materials (such as brochures and posters) to build awareness. Other resources contributed by partners include smartphones for extension officers to use when registering farmers and animals using the livestock mobile application.

m. Reasons for success

This model has shown success and a potential for greater numbers due to the value proposition presented to all parties involved.

Farmers benefit from:

- ▶ protection provided by a bundled insurance cover, covering financial losses arising from funeral expenses in the event of the death of the insured, or the death or injury to the productive livestock;
- ▶ the ability to secure insurance premium financing from the FSA, which makes the payment of premiums manageable;
- ▶ access to information on how to increase productivity and record-keeping;
- ▶ the ability to use insured livestock as collateral to access better credit facilities; and
- ▶ access to coordinated vaccination due to collective bargaining.

Githunguri Dairy FCS benefit from:

- ▶ the protection of their portfolio from default risk resulting from the loss of livestock
- ▶ generation of income through administrative fees;
- ▶ the positive social impact for their farmers;
- ▶ improved farming practices which will increase yields; and
- ▶ increased income through farming as a business.

CIC will benefit from:

- ▶ an increased portfolio of insured households; and
- ▶ increased revenue.

ACRE Africa will benefit from:

- ▶ social impact; and
- ▶ increased revenue.

SBO Research will benefit from:

- ▶ social impact;
- ▶ thought leadership; and
- ▶ increased revenue.

n. Challenges expected in the pilot phase

The process of establishing the relationship between The Githunguri Dairy Farmers Co-operative Society, SBO Research, ACRE Africa and CIC faced teething challenges especially because of the short time within which the engagement began. The expected costs of hosting and incentives for the team are high.

o. Solutions to challenges encountered

Management has expressed goodwill. It is expected the farmers will be excited about the impact of insurance on farm income as well as modern practices and businesswise farming. This paradigm shift is likely to create many promoters of insurance and help create more sales. Model farmers who are “trendsetters” will be targeted as the champions of the programme.

Since the Society is based near Nairobi, it is expected that the hosting costs would be lower than in the other case studies.

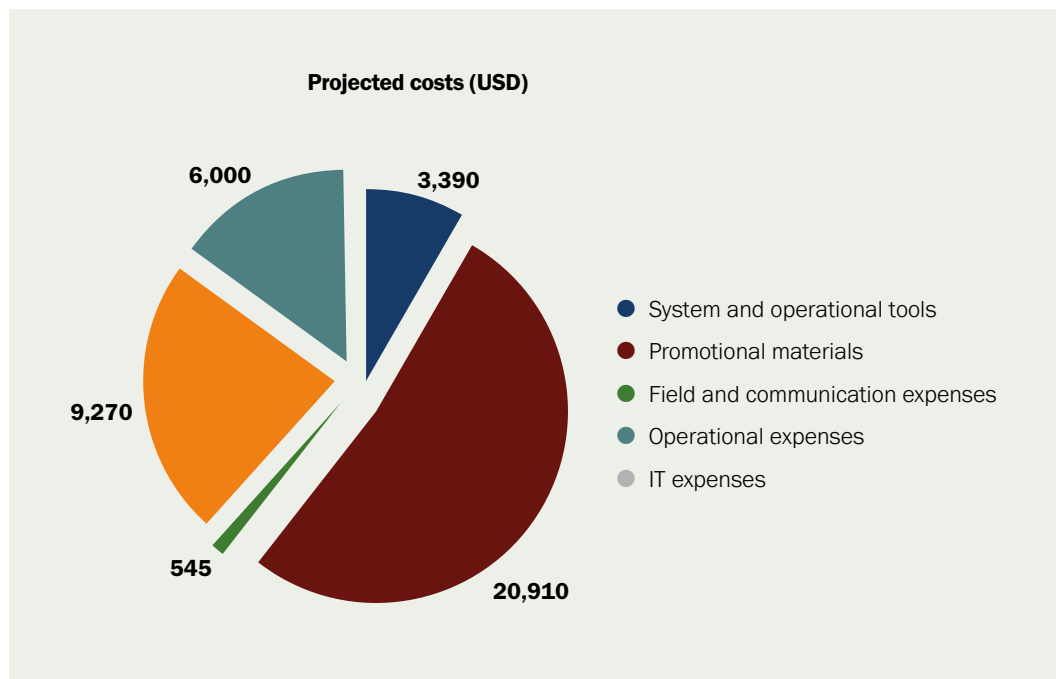
p. Business case

Githunguri Dairy FCS has a membership of 23,000 active farmers, who mostly use the “zero grazing” method on a medium scale. Each farmer has an average of 2.2 cows, with an average value of KES 110,000 (USD 1,100). There is opportunity to insure other animals. Kiambu County produces milk worth over KES 10 billion (USD 100 million) annually presenting high value insurable interest among farmers. The need for health insurance also presents a huge opportunity. The county has slightly over 0.2 million dairy cows and over 3 million domestic animals.

Table 11: Business potential for Githunguri Dairy FCS

Number of insurable households	23,000
Total insurable livestock value (USD)	25,300,000
Premium payable (USD)	885,500

Figure 18: Distribution of expenses incurred to acquire business through Githunguri Dairy FCS



q. Sustainability

The cooperative has continuously delivered better prices from milk sales for its members. This improves the livelihoods of the farmers, making their farms more sustainable. Insurance will improve the farmers’ coping mechanisms to the risks they are exposed to. Modern farming and businesswise practices will also ensure sustainability at the farm level.

Table 12: Support required for scaling Linda Mifugo with Githunguri Dairy FCS

Financial support	Source of support
i. To organise market awareness initiatives <ul style="list-style-type: none"> ▶ Public forums ▶ Promotional materials (eg brochures, posters, give aways) ▶ Media 	CIC, ACRE Africa, Githunguri Dairy FCS and donors
ii. To increase staff presence on the ground	
Technical support	Source of support
iii. Mapping of private vet practitioners	CIC, ACRE Africa, SBO Research, Githunguri Dairy FCS, agricultural input companies and donors
iv. Capacity building for dairy extension staff, vets and farmers	
v. Capacity building for farming as a business, modern practices and new product development	

5.2.4. Kipkellion Coffee Mill

a. Overview of the organisation

Kipkellion Coffee Mill does not currently have a way of providing insurance to its members. However, they help members to cope with some of their risks through promissory notes to hospitals and schools as a guarantee that the bill will be paid. They continuously increase access to water for members. They also train the farmers on good crop husbandry and safe handling of farm chemicals. They produce fair trade coffee which is based on sustainable practices.

It is proposed to reach them with the Linda Mifugo livestock microinsurance product which was pioneered by ACRE Africa in partnership with CIC Insurance Group (CIC).

Target beneficiaries: Coffee and dairy farmers in Kericho, Bomet and Nandi counties selling their produce through organised cooperatives.

Number of members/target beneficiaries: Over 19,000.

Geographic coverage: Kericho, Bomet and Nandi counties in the Rift Valley region of Kenya.

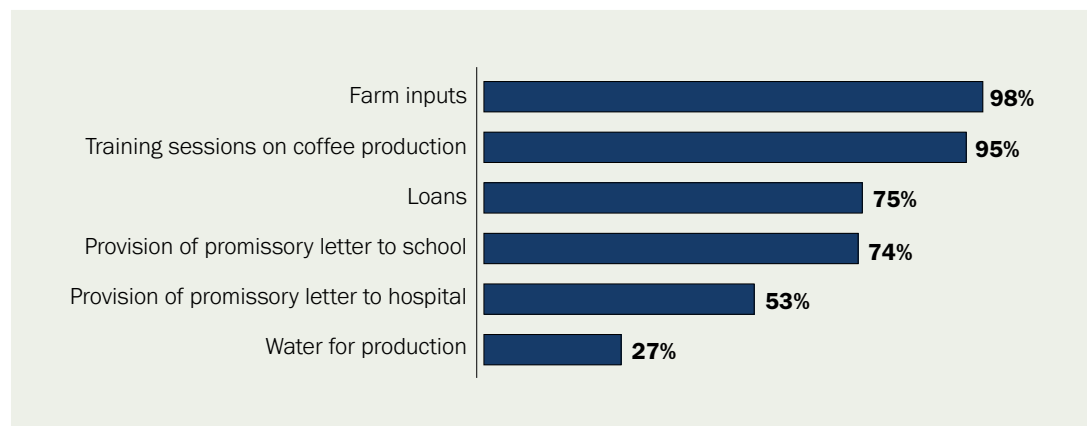
Organisation’s willingness to scale or start mutual insurance: They have expressed willingness to partner with CIC and ICMIF to start offering mutual insurance; their involvement in Fair Trade Africa suggests that they are an innovative and progressive cooperative.

Kipkellion Coffee Mill is owned by coffee farming cooperatives in Kericho, Nandi and Bomet counties. It is based in Fort-Ternan in Kericho County. It was founded by small scale coffee holders, who united voluntarily to meet their common needs, especially their economic needs. One of their achievements is that by milling their own coffee, they reduced their milling loss from 25% to 17% of the crop value, consequently increasing members’ income and thus improving their livelihoods.

b. About Kipkellion Coffee Mill

Records available indicate that Kipkellion Coffee Mill has 19,042 members, out of which 16,938 are males and 2,202 are females. The Mill encourages coffee production for males, females and the youth. It has impacted the community in a number of ways (refer to Figure 19).

Figure 19: Impact of Kipkellion Coffee Mill to its members



The Mill supports its members by helping them solve some of the challenges they are faced with, such as advancing money for school fees, supplying farm inputs, and supplying fertilisers to members based on their supplies. This money is deducted from the members’ accounts when payments are due.

c. Kipkellion Coffee Mill’s operations

The Mill is governed well and decisions are made in a consultative way. Eighty nine percent of members say the organisation puts their interests first when they are making and implementing decisions. The management team is also very approachable, and are supportive to members’ needs.

Figure 20: Kipkellion Coffee Mill members offered training

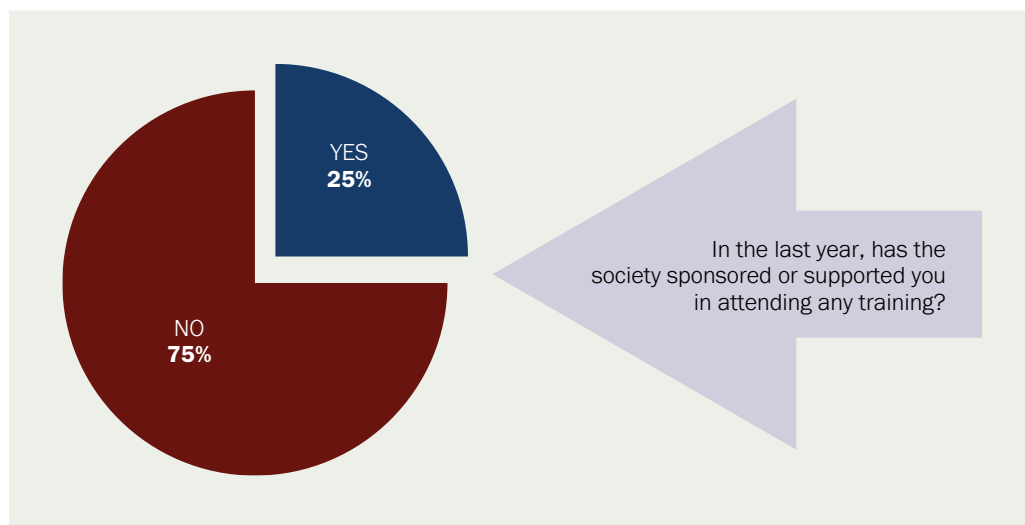


Table 13: Ownership of Kipkellion Coffee Mill resources

Organisation	Resources
Kipkellion Coffee Mill	Coffee plant nursery (valued at approximately USD 18,000), where seedlings are sold to farmers at a subsidised rate. Machinery (valued at over USD 400,000).
Kapng’etuny Coffee Co-operative Society	Mini power generation site, which generates power for the organisation’s computers Electric pulper from Brazil (valued at approximately USD 40,000) Automated weighing scale and ticketing machine Automated back-up (valued at approximately USD 10,000) Store for grains and pulp (valued at approximately USD 10,000) Moisture reader Social hall <i>Total assets in 1997: USD 3,000</i> <i>Total assets today: Over USD 260,000</i>
Kapkiyai Coffee Co-operative Society	Machine (valued at approximately USD 17,000) Ginnery and shelter (valued at approximately USD 3,000) <i>Total assets: Approximately USD 27,000</i>

d. Access to financial services among members

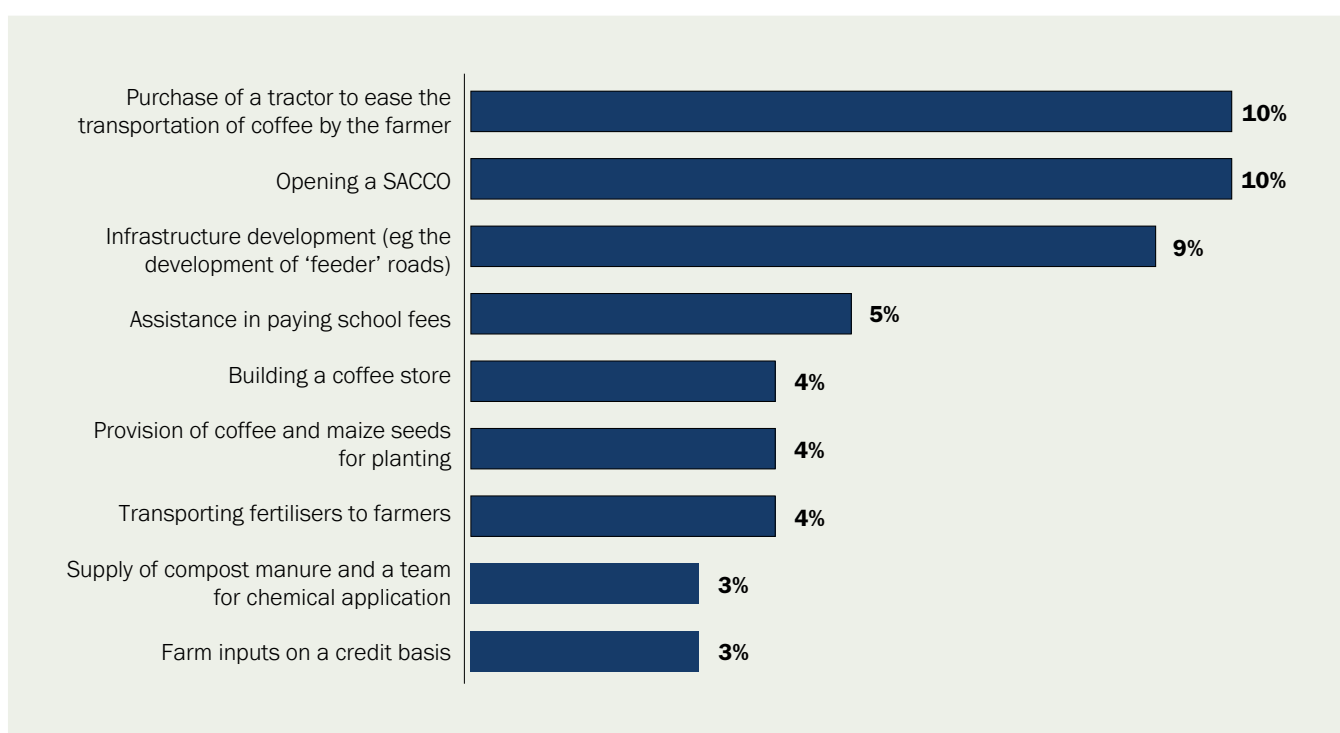
With the help of the mill's management, members of Kapng'etuny Society started a savings and credit cooperative society (SACCO) which has helped members in the following ways.

- ▶ An easier and more controlled way of accessing members' revenues from coffee sales.
- ▶ Access to financial services such as loans.
- ▶ Accountability of ways in which money is spent.

Table 14: Access to financial services by Kipkellion Coffee Mill members

Ownership of a bank account	30%
SACCO membership	95%
Membership with an investment club	22%
Membership to informal financial groups	48%
Access to mobile money	81%

Figure 21: Impact of Kipkellion Coffee Mill to society



There is an expressed need touching on other farming aspects like dairy and maize farming. For example, it is recommended some crops are planted within the coffee bushes; this is normally known as intercropping.

Figure 22: Risk profile of Kipkellion Coffee Mill members

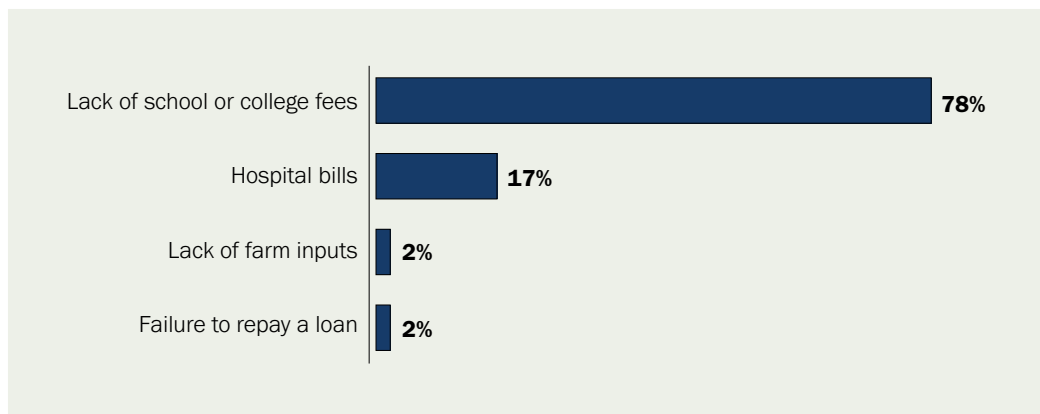
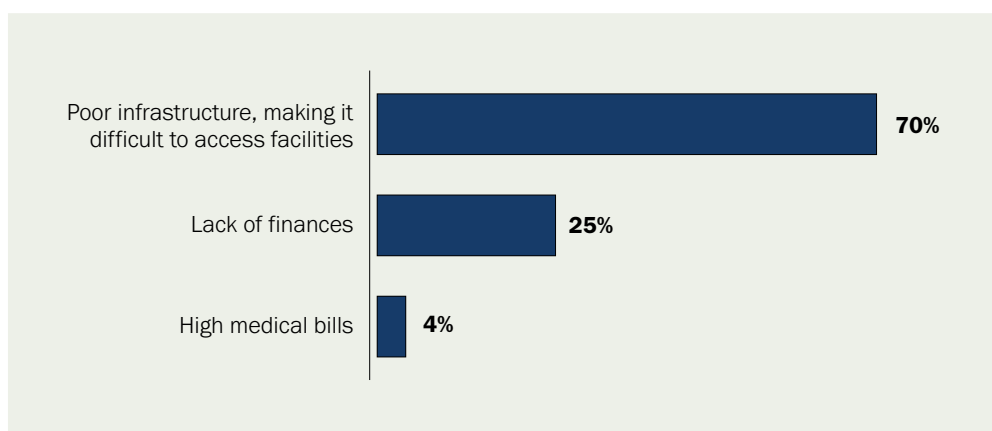


Figure 23: Consequential risks faced by Kipkellion Coffee Mill members



e. The partner model

Kipkellion’s membership consist of over 19,000 active farmers. When the programme is fully rolled out, the mill will offer insurance partners market access to farmers via their team. This involves training staff on insurance in order for them to train and sign up the farmers, as well as training the credit team to enable them to finance the farmers’ premium payments. This model ensures the constant flow of information to farmers. The partnership with the cooperative mill removes the element of “mistrusting” insurance companies, which has been a great hindrance to insurance uptake particularly with smallholder farmers. This approach administers insurance through already established management and service structures, making the process easier to scale. Building capacity with the mill’s staff is instrumental in reaching out to the farmers, insurance registration, conducting health training sessions, and with claims verification. It is proposed to provide farmers with training where insurance is an element in businesswise modern farming practice.

f. Support from the partners

The Linda Mifugo model was crafted to include resource contribution from all partners to ensure its success. CIC Insurance Group’s (CIC) contribution will include assistance with market awareness, product training, underwriting and claims processing. ACRE Africa will provide a mobile application to be used in the administration of insurance, which focuses on product training and systems usage, market awareness, capacity building and the registration of farmers. SBO Research will train farmers on farming as a business, and modern farming practices. Modern practices will include those that are not rain dependent to ensure the sustainability of the farmer.

During the pilot programme, SBO Research, ACRE Africa and CIC will conduct training for the management and extension staff teams to enable them to promote the insurance products, sign up farmers and conduct farming as a business. The team’s shared expenses will include the design and print of promotional materials (brochures and posters) to be distributed to create awareness.

Other resources contributed by the partners include smartphones for extension officers to use when registering farmers and animals using the livestock mobile application.

g. Reasons for success

This model has shown success and potential for greater numbers due to the value proposition presented to all parties involved.

Farmers will benefit from:

- ▶ relief from financial losses arising from funeral expenses in case of death of the insured or death or injury of the productive livestock;
- ▶ ability to secure insurance premium financing from the FSA makes the payment of premiums manageable;
- ▶ access to information such as how to increase productivity, and record keeping;
- ▶ ability to use insured livestock as collateral to access better credit facilities; and
- ▶ access to coordinated vaccination due to collective bargaining.

Kipkelion Coffee Mill will benefit from:

- ▶ protection of portfolio from the risk of default resulting from loss of livestock;
- ▶ generation of income through administrative fees;
- ▶ social impact for their farmers;
- ▶ improved farming practices that will increase yields; and
- ▶ increased income through farming as a business.

CIC will benefit from:

- ▶ an increased portfolio of insured households; and
- ▶ increased revenue.

ACRE Africa will benefit from:

- ▶ social impact; and
- ▶ increased revenue.

SBO Research will benefit from:

- ▶ social impact;
- ▶ thought leadership; and
- ▶ increased revenue.

h. Challenges expected in the pilot phase

The process of establishing the relationship between Kipkelion, SBO Research, ACRE Africa and CIC faced teething challenges. The expected costs of hosting and incentives for the team are high.

i. Solutions to challenges encountered

CIC expect that the farmers will be excited about the impact of insurance on farm income as well as modern practices and businesswise farming. This paradigm shift is likely to create many promoters of insurance and help create more sales. Model farmers who are “trendsetters” will be targeted as the champions of the programme.

j. Business case

Kipkellion Coffee Mill has 19,000 active farmers, each with an average of 2.68 cows with an average value of KES 134,000 (USD 1,340). There is also an opportunity to insure other animals. The three counties produce milk worth over KES 10 billion (USD 100 million) annually presenting high value insurable interest among farmers. The need for health insurance also presents a huge opportunity. The catchment counties have over 0.5 million dairy cows and over 3 million domestic animals.

Other activities they engage in

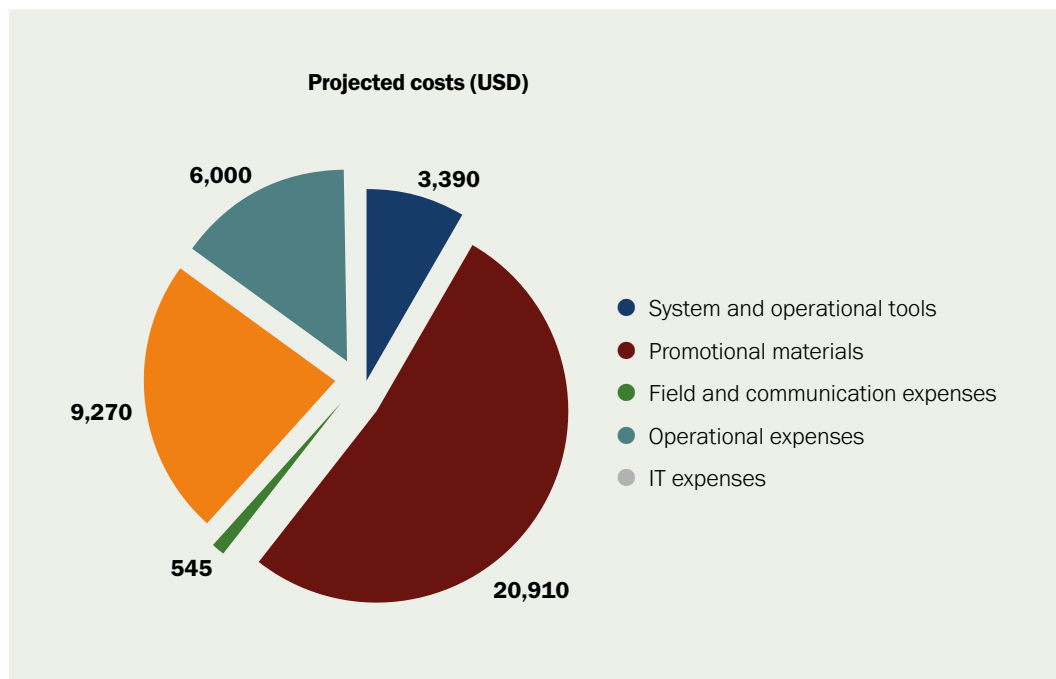
Most farmers engage in keeping cattle and poultry (refer to Table 15).

Table 15: Business potential for Kipkellion Coffee Mill

	Percent of farmers who keep livestock	Average number of livestock per farmer	Total number of animals	Value (USD)	Premium potential
Cows	97%	2.68	50,920	25,460,000	891,100
Poultry	90%	9.77	185,630	1,113,780	38,982
Sheep	34%	3.9	74,100	4,446,000	155,610
Donkeys	26%	1.23	23,370	4,674,000	163,590
Goats	18%	3.36	63,840	3,830,400	134,064
Rabbits	4%	2.2	41,800	334,400	11,704
Total	439,660	39,858,580	1,395,050		

Source: SBO Research data (2013)

Figure 24: Distribution of expenses to be incurred to acquire business for Kipkellion Coffee Mill members



k. Sustainability

Through the added value of coffee and fair trade practices, Kipkelion Coffee Mill has continuously delivered better prices for its farmers. This improves the livelihoods of the farmers, making their farms more sustainable. Insurance will improve the farmers' coping mechanisms to the risks they are exposed to. Modern farming and businesswise practices will also ensure sustainability at the farm level.

5.2.5. Muramuki Coffee Cooperative

a. Overview of the organisation

Muramuki Coffee Farmers' Cooperative does not currently have a way of providing insurance to its members. It is proposed to reach them with the Linda Mifugo microinsurance livestock product which was pioneered by ACRE Africa in partnership with CIC Insurance Group (CIC).

Target beneficiaries: Coffee and dairy farmers in Embu County, who sell their produce through organised cooperatives.

Number of members/target beneficiaries: 2,800 growing at 50 per year.

Geographic coverage: Embu County in Eastern Kenya.

Organisation's willingness to scale or start mutual insurance: They have expressed willingness to partner, their involvement in coffee value addition suggests that they are an innovative and progressive cooperative.

b. About Muramuki Coffee Cooperative

Muramuki Coffee Cooperative is a “producer” cooperative for coffee farmers in Embu County having being founded by many small scale coffee holders who united voluntarily to meet their common and economic needs. Their common aspiration when founding the cooperative was guided by the aspiration to market their coffee produce through a jointly owned and democratically controlled enterprise. The founders and members of the cooperative embrace the values of self-help, responsibility, good morals, democracy, equality, equity and solidarity.

The mission of Muramuki is: To improve the quality of life for the members and providing quality products in the market.

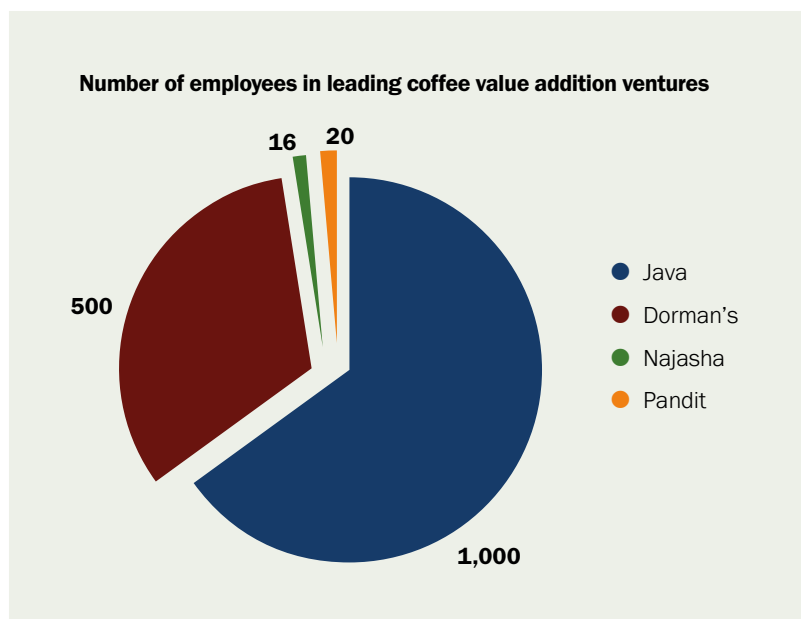
The cooperative strives to meet the destined objective of uplifting the living standards of members, through innovation. This has seen the cooperative venture into coffee value addition, an initiative driven by the members.

c. Brief overview of the organisation

Muramuki Coffee Farmers' Cooperative used to be a part of a much larger operation called Central Ngadori Farms Cooperative Society, until 2000 when they became independent. The cooperative was formed based on the principles of voluntary membership, open membership, autonomy, independence, education, training, cooperation and concern. The cooperative rents out its premises to a cooperative bank to pay their overheads, which results in a greater income from proceeds for farmers. The cooperative also roasts its own coffee, which is sold at a local market. This is a demonstration of the cooperative's commitment to offer solutions to its members and empower them economically.

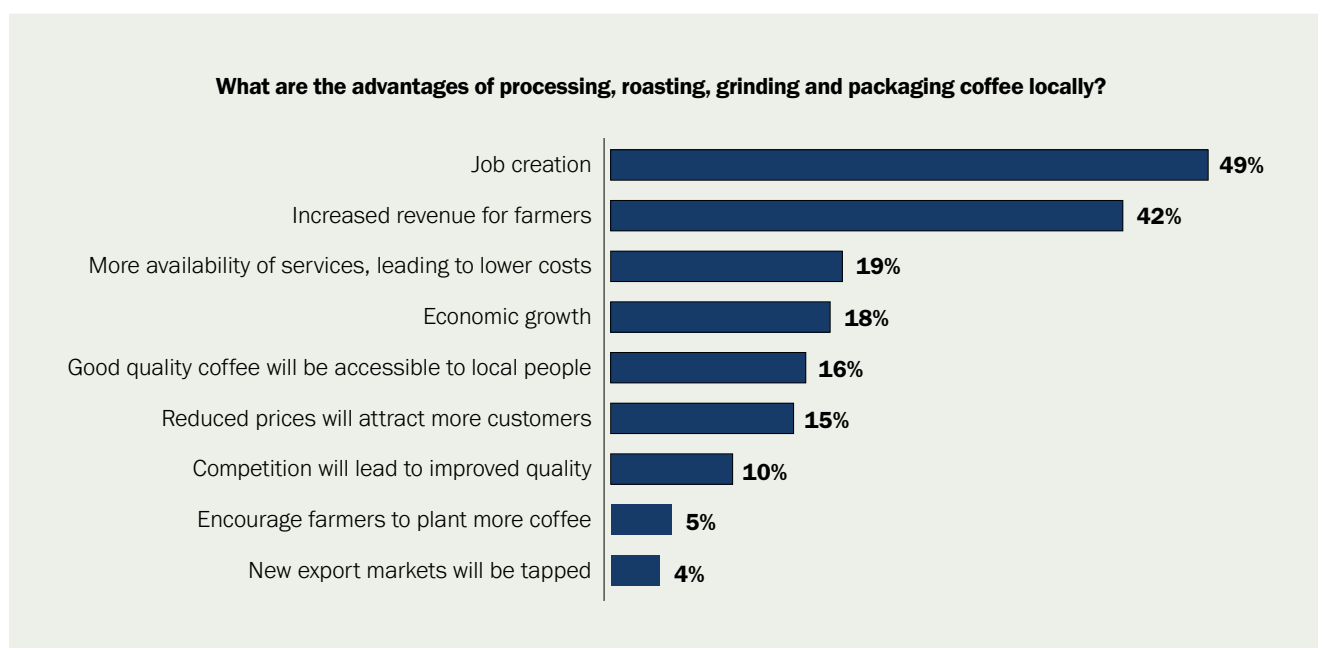
As a farmers' cooperative society, Muramuki identified a need to cushion its members from exploitation by brokers by procuring and directly exporting coffee on behalf of its members. By 2007, the volume of farm produce procured through brokers had reduced from 70% to 50%, as a result of both the cooperative's activities, and an increase in the purchase of farmers' produce directly. Although the cooperative's members are mostly men, benefits are accrued to men, women and children equally. The community at large is also set to benefit greatly through employment creation as a result of the cooperative's venture into “value-addition” activities. This has not been fully realised yet as the Muramuki Coffee Farmers' Cooperative has not yet fully commercialised its value addition activities. The potential is however enormous as seen from the fully commercialised coffee value addition ventures which have already created employment for locals. The potential for employment creation is shown in Figure 25, which illustrates cases of coffee value addition ventures that have resulted in employment creation for men, women and the youth.

Figure 25: Potential impact of coffee value addition services



The potential benefits are enormous for all sectors of the economy as illustrated in Figure 26.

Figure 26: Advantages of promoting coffee value addition services

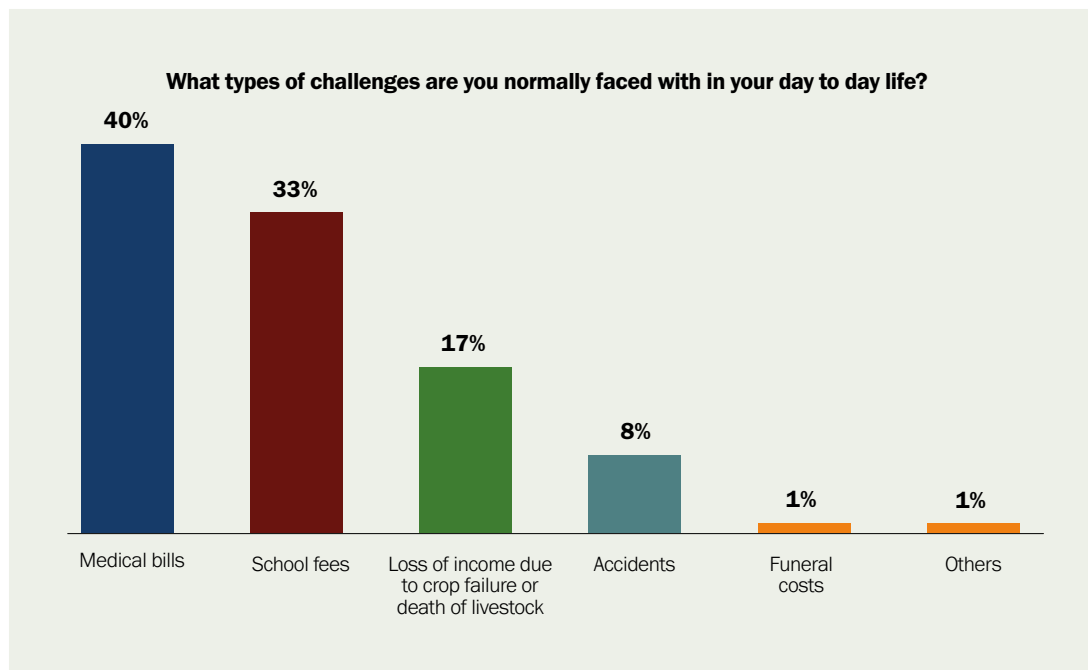


These have not been fully realised as the cooperative currently lacks adequate resources and support to exploit the existing opportunities fully.

d. Risk profile of the members

Data from the primary research found that both the current and potential members of the cooperative are faced with various risks, especially the inability to cater for medical expenses and pay school fees for their children. Most of the people in this area also engage in small scale food crop and dairy farming, especially maize and beans from which they get food and a small amount of income from the sale of their produce. Unreliable rainfall patterns in this area sometimes leads to crop failure exposing them to losses and lack of food. The risk profile of the members and the wider community in Embu County is shown in Figure 27.

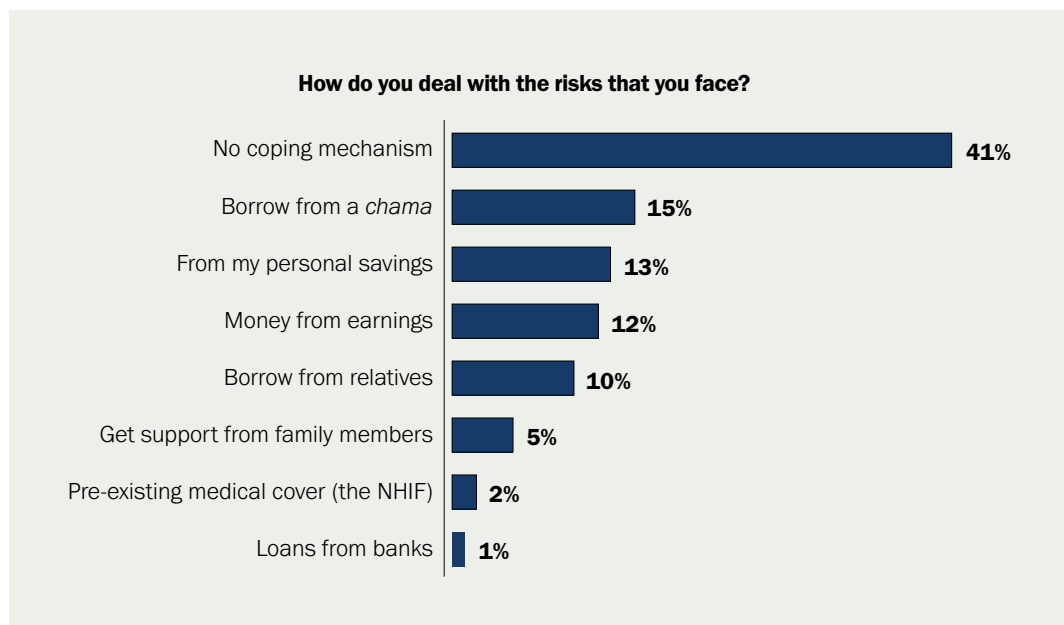
Figure 27: Risk profile of Muramuki Coffee Farmers' Cooperative members



e. Insurance penetration

Currently, the population is largely uninsured and therefore most people lack risk coping mechanisms. Where they exist, these are purely *chama* (informal cooperative societies).

Figure 28: Risk coping mechanisms of Muramuki Coffee Farmers' Cooperative members



f. The Linda Mifugo programme

The product was developed to mitigate the financial risk to farmers in the event of the death or emergency slaughter of the cow. The cover ensures that the farmer quickly receives compensation so they can either repay the outstanding loan on the cow, or purchase a comparable replacement animal. SBO Research, ACRE Africa and CIC approached Muramuki cooperative's management team, who agreed to partner with them to address the insurance needs of their members. It is proposed to use Linda Mifugo as an entry point to explore other potential insurance needs of their members. Dairy experts at SBO Research estimate from the total dairy farmers income, only a third comes from milk sales (the other two thirds comes from crop farming, where manure is the key input).

g. The partner model

Muramuki Coffee Farmers' Cooperative has a total of 2,800 active farmers. When the programme is fully rolled out, the cooperative will offer the insurance partners market access to farmers. This involves training their staff on insurance to enable them to train and sign up farmers, as well as the credit team for them to finance the farmer's premium payments. This model ensures the constant flow of information to the farmers.

The partnership with the cooperative removes the element of mistrust of insurance companies and insurance products which has been a great hindrance to insurance uptake particularly with smallholder farmers. This approach of administering insurance through already established management and service structures without having to make time consuming fundamental changes makes it easy to scale up. Building capacity in the teams is instrumental in reaching out to the farmers, insurance registration, health training, and claims verification. It is also proposed to provide farmers with training where insurance is an element in businesswise modern farming practice.

6. CONCLUSIONS AND RECOMMENDATIONS

Over 75% of informal and semi-formal mutuals exist in rural areas where social networks are strong and economic activity is largely agricultural. Death of the household income earner is the highest risk and since this is of a low frequency risk, health (both outpatient and inpatient) is perceived as the next biggest risk. The welfare funds existing in these mutuals facilitate coping with such risks but are not enough to restore the beneficiary to full financial stability

The National Hospital Insurance Fund (NHIF) has been identified as one of the options for formal health insurance but is not a working option due to the costs and inefficiencies arising from bureaucracy involved in the registration and claims processes. The premium for the NHIF was previously very affordable at USD 1.6 per month, however the current lowest rate of USD 5.0 per month is no longer considered reasonable. The information available on the NHIF was also questionable (certain groups were aware of certain benefits, whilst others were not). Thus, low-income earners rely mostly on social networks, savings and loans to deal with risks.

The insurance industry should design products built on the foundations of existing social networks, just as banks and microfinance institutions (MFIs) have built credit facilities using the same foundation. Current insurance products may be positioned as microinsurance but do not address the low-income segment.

Furthermore, microinsurance cannot achieve scale unless regulations change to allow for suitable product design for low-income earners. These products should be easy to administer and process claims, and they should be designed in a way that is convenient for those with a sporadic income.

Drawing from the results of this research, it is clear that there is an opportunity to scale mutual microinsurance using the strength of social networks as the foundation. Insurance companies should engage these social networks to jointly develop products which will be owned by communities and will address the needs of the market. Such a process would eliminate issues of unsuitability, lack of social responsibility, heavy market and product awareness costs, as well as high administration costs.

ANNEX 1: CARE CALENDAR AND RECORD CARD

Month	Activity
January	East Coast Fever (ECF) vaccine
	Weekly tick control (dipping or spraying)
	Deworming
February	Mineral supplements
	Foot and mouth disease (FMD) vaccine, lumpy skin disease (LSD) vaccine
	Weekly tick control (dipping or spraying)
March	Mineral supplements
	Weekly tick control (dipping or spraying)
April	Mineral supplements
	Deworming
	Weekly tick control (dipping or spraying)
May	Blanthax (1) vaccine, rabies vaccine
	Weekly tick control (dipping or spraying)
	Mineral supplements
June	Weekly tick control (dipping or spraying)
	Mineral supplements
July	Weekly tick control (dipping or spraying)
	Deworming
	Mineral supplements
August	Weekly tick control (dipping or spraying)
	Mineral supplements
September	Weekly tick control (dipping or spraying)
	Mineral supplements
October	Blanthax (2) vaccine
	Weekly tick control (dipping or spraying)
	Deworming
	Mineral supplements
November	Weekly tick control (dipping or spraying)
	Mineral supplements
December	Weekly tick control (dipping or spraying)
	Mineral supplements

ANNEX 2: LINDA MIFUGO PRODUCT PROFILE

The insurer	CIC Insurance Group (CIC)
Insured	Dairy farmers
Insurable interest	Dairy cattle, ie milk cows or heifers, whether indigenous, exotic or cross-breed.
Age limit	The policy is available for insuring cattle between four months to 10 years of age.
Scope of cover	
Cover A (90%)	<p>Death or emergency slaughter of the insured animal due to the following.</p> <ul style="list-style-type: none"> ▶ Accidents (eg due to falling or electrocution) ▶ Fire, resulting from smoke, lightening or earthquakes ▶ Flooding, drowning, windstorms or landslides ▶ Calving complications ▶ Snake bites, poisoning or allergic reactions from venomous insects ▶ Epidemic diseases ▶ Diseases vaccinated against in the last six to 12 months, eg foot and mouth disease, anthrax, lumpy skin disease, black quarter or black leg, rift valley fever, tick-borne diseases and rabies ▶ Poisoning from plants or frogs ▶ Emergency slaughter upon the advice of a registered vet or animal health practitioner ▶ Theft (with a report from the area chief, a police abstract and proof of forceful entry/exit from the premises) ▶ Diseases of a terminal nature contracted during the period of insurance eg chronic cancer or clinical mastitis
Cover B (50%)	<p>The below manageable diseases (provided that in the opinion of a qualified vet, all necessary measures to manage these diseases were taken).</p> <ul style="list-style-type: none"> ▶ Septicemia, leading to death ▶ Mastitis, leading to clinical mastitis ▶ Ingestion of foreign materials ▶ Milk fever ▶ Acute pneumonia ▶ Bloat
Cover C: Farmers' life	<p>Life cover of USD 100 for the farmer for one year</p> <ul style="list-style-type: none"> ▶ Covers the farmer in the event of death and total permanent disability ▶ Waiting period of three months in the event of natural death ▶ No waiting period for accidental death ▶ Covers farmers at a maximum age of 80 years at entry

<p>What is not covered</p>	<ul style="list-style-type: none"> ▶ Diseases which arise in the first 14 days after inception of the cover ▶ Unexplained disappearances ▶ Pre-existing conditions ▶ Hereditary diseases ▶ Feed and spray poisoning ▶ Management-related losses ▶ Intentional slaughter ▶ Attack by wild animals ▶ Drought, malnutrition and dehydration ▶ Culling of animals ▶ Sterility and unproductive animals ▶ Cattle rustling ▶ Vet and medication expenses ▶ Transport risk of insured livestock unless the insurer is notified three days prior to transportation ▶ Death of animals outside of the limits of the situation of risks as stated in the schedule
<p>Underwriting requirements</p>	<ul style="list-style-type: none"> ▶ Completed and signed proposal form from the livestock owner ▶ Veterinary certificate of health, valuation and identification by a qualified vet ▶ Premium payment
<p>Premium rate</p>	<p>3.5% of the total sum insured per cow</p>
<p>Operational procedures</p>	<ul style="list-style-type: none"> ▶ ACRE Africa deliver livestock insurance underwriting documents to the dairy cooperatives' distribution agents ▶ Farmers buy their insurance policy (which is equivalent to the value of their livestock as assessed by a qualified veterinarian) through a CIC pay bill or account number ▶ Upon identification of the animals to be insured, a health assessment and valuation must be conducted by a qualified veterinarian ▶ ACRE Africa distributing agents submit a schedule of farmers who have paid premiums with respective to veterinary reports, premium and animal identification description to CIC ▶ Upon receipt of the above, CIC issue cover certificates to the insured

<p>Claims procedures</p>	<p>Notification</p> <ul style="list-style-type: none"> ▶ Through the mobile platform, a farmer can dial*800*5# followed by the cow identification number and this will notify the insurer and ACRE Africa ▶ Alternatively, farmers can call ACRE Africa’s helpline and/or CIC’S helpline within 12 hours ▶ The client shall notify CIC through ACRE Africa in the event that a claim needs to be settled within 12 hours ▶ A vet will be dispatched by ACRE Africa to conduct a postmortem and send the report together with the claims documents for processing <p>Claims documents required</p> <p>Through the mobile application provided by ACRE Africa, the vet will be able to upload the following claim documents.</p> <ul style="list-style-type: none"> ▶ A completed claims form ▶ The vet’s post mortem report ▶ A dated photo of the dead animal, clearly showing its ear tag name/number ▶ Farm care records
<p>Life procedure</p>	<ul style="list-style-type: none"> ▶ The claim is reported to the savings and credit cooperative organisation (SACCO) by the field officer or a family member of the deceased ▶ The SACCO notifies CIC immediately, either by email or telephone conversation ▶ The SACCO completes a claims form and forwards a burial permit to CIC ▶ CIC settles the claim with 48 hours
<p>Conditions</p>	<ul style="list-style-type: none"> ▶ Animals must be vaccinated against all common diseases (records must be kept) ▶ Regular tick and worm control ▶ Animals must be kept securely at all times ▶ Health certificates, valuations, and medical and postmortem reports must be carried out by a qualified vet, registered with the Kenya Veterinary Board (KVB) ▶ Observation of appropriate bio-safety measures, good hygiene and management practices ▶ Access for a CIC-authorized vet or personnel to the premises where animals are kept
<p>Cover period</p>	<p>Annual (12 months)</p>

ANNEX 3: INDEX-BASED LIVESTOCK TAKAFUL (IBLT) PRODUCT PROFILE

Introduction

Takaful Insurance of Africa (TIA), the first insurer in Eastern and Central Africa to offer Sharia-compliant Takaful insurance, partnered with the International Livestock Research Institute (ILRI) to develop the first ever Sharia-compliant Index-Based Livestock Insurance (IBLI) insurance policy, dubbed Index-Based Livestock Takaful (IBLT). It is the first insurance policy that combines an Islamic-compliant financial instrument with the innovative use of satellite imagery to compensate pastoralists for drought-induced losses. The project was first piloted in the Kenyan Wajir region in August 2013 (see Annex 7), and rapidly grew, due to increased demand and expansion to other arid and semi-arid land (ASAL) counties (ie Isiolo, Garissa, Mandera, Marsabit and Moyale). IBLT was introduced to mitigate climate risk for pastoralists, focusing on the devastation caused by cyclical droughts in ASAL counties. It provides peace of mind and continuity to livestock owners.

The product

IBLT only protects against prolonged forage scarcity as a result of drought, and covers camels, cattle, sheep and goats. It is an asset protection cover, which means that beneficiaries are paid before the onset of the drought to help them keep their animals alive until the expected rains. This asset protection contract began in window four (ie January/February 2015).

IBLT can be bought in January/February (the JF sales window) and August/September (the AS sales window).

A mobile application is used to process policyholders' transactions and to address geographical constraints, due to the limited infrastructure common in all the targeted counties, which makes it too difficult and too costly to insure with traditional models of insurance.

IBLT product features.

- ▶ **Coverage:** Asset protection
- ▶ **Risk insured:** IBLT compensates pastoralists when the forage scarcity is at its worst condition, when compared over a historical prolonged period of time
- ▶ **Index:** Forage scarcity (ZcumNDVI)
- ▶ **Strike:** Twentieth percentile
- ▶ **Sum insured:** The amount of money needed to keep an animal alive for one year (USD 140)
- ▶ **Contract timeline:**
 - Purchase times: January/February and August/September
 - Potential pay-out periods: Mid-February and Mid-August

IBLT expansion

Since its inception in Wajir in August 2013, IBLT has steadily expanded its reach to cover five counties (coverage for windows one to six are shown below).

Window 1 August/ September 2013		Window 2 January/ February 2014		Window 3 August/ September 2014		Window 4 January/February 2015		Window 5 August/ September 2015		Window 6 August/ September 2016	
1	Wajir	1	Wajir	1	Wajir	1	Wajir	1	Wajir	1	Wajir
				2	Isiolo	2	Isiolo	2	Isiolo	2	Isiolo
						3	Garissa	3	Garissa	3	Garissa
						4	Mandera	4	Mandera	4	Mandera
								5	Marsabit	5	Marsabit
								6	Moyale	6	Moyale
										7	Tana river

Pay-outs

Pay-outs have been made to both Wajir and Isiolo counties. Both 'long dry' and 'short dry' season pay-outs have been paid for windows one and two (in Wajir only), while the first pay-out for window three (in Wajir and Isiolo) was also paid to beneficiaries in March 2015. The second pay-out for window three was paid in October 2015 and this marked the end of asset replacement or livestock mortality contract.

Sharia compliance

A major challenge to IBLT implementation has been the fact that the pastoral communities in the Horn of Africa are predominantly Muslims, who are often unfamiliar with and mistrust insurance (conventional insurance is *haram*, ie forbidden, in the Islamic faith). The success of the project is not only attributed to partnerships with various development partners, but more importantly due to TIA's compliance to Sharia law which endears them to this population. Takaful schemes are free from elements involving *gharar* (uncertainty) in respect of the premium and coverage, *Maisir* (gambling) and *Riba* (interest). They are based on Sharia principles according to this verse "And Allah permitted to you sales and prohibited interest" (*Al-Baqarah*, 275). The management of TIA is responsible for ensuring that TIA conducts its business operations in accordance with Islamic Sharia rules and principles and *Fatwas* of the Sharia Supervisory Council (SSC).

How to reach TIA's target market

Major challenges for IBLT in penetrating its target market include the size and remoteness of pastoralist areas, and the lack of proper infrastructure to reach them. This is partially overcome through TIA's 'agency model' which guides the sale of IBLT in a way that ensures ease of access to the product for the pastoralists in each of the targeted counties. The adoption of the 'lead agency model' (refer to Annex 4) looks to create permanence and stability in TIA's distribution channels, in a bid to achieve commercial sustainability in the long run. This approach is based on the concept of recruiting agents across weather divisions in order to take IBLT services closer to the pastoral communities. TIA has a county coordinator at its apex, divisional lead agents in charge of IBLT operations in each division, and sub-agents who are spread out in each location. The sub-agents are trusted community-endorsed business people who, alongside their day-to-day activities, conduct IBLT awareness campaigns and contracting during the sales windows.

ANNEX 4: INDEX-BASED LIVESTOCK TAKAFUL (IBLT) AGENCY MODEL DESCRIPTION

Youth-based agency model

Takaful Insurance of Africa (TIA) introduced IBLT to pastoralists in Wajir County in the August/September 2013 sales window. During this sales window, and the following two sales windows (January/February 2014 and August/September 2014), a distribution channel was developed and utilised, based on the temporary employment of local youths, largely secondary school leavers. The channel model worked as follows.

- ▶ Approximately 100 qualified youths were identified a month before the beginning of a sales window.
- ▶ Identification of the youths was conducted through a partnership between TIA, the International Livestock Research Institute (ILRI), the Kenya Markets Trust (KMT), Mercy Corps and World Vision International (WVI) (in the case of Isiolo County).
- ▶ The 100 youths were taken through a formal product-training module, which was jointly delivered by TIA and the ILRI, with the support of the KMT, Mercy Corps and WVI.
- ▶ The top 50 youth were selected as sales agents based on their understanding and 'pass mark' of the course.
- ▶ The chosen agents were trained further on the IBLT product, including communications materials, sales tools, premium collection and submission, and reporting.
- ▶ TIA signed an agency agreement for 60 days with each of the selected agents.
- ▶ A retainer of USD 60 was agreed, 50% of which was paid up-front and the remaining 50% was paid after the sales window. The first part of the retainer (USD 30) was paid to each agent the week before the beginning of a sales window.
- ▶ A sales commission of 8% (paid in arrears) was agreed, based on sales per agent.
- ▶ Agents were moved to their weather divisions (area of work) before the first day of a sales window.
- ▶ Agents in each county were supervised and monitored by a county coordinator, who was based at the county headquarters.
- ▶ The sales window was closed after 60 days.
- ▶ The agents were then released from employment until the next sales window.

The above youth-based agency model was implemented across August/September 2013, January/February 2014 and August/September 2014 in Wajir County, and August/September 2014 in Isiolo County. Through surveys and evaluations across the three sales windows, key challenges of the youth agency model were identified as follows.

- ▶ The agents were generally found to lack commitment. Many of the agents either did not report to work, or did not make any effort
- ▶ The agents did not have the full confidence of the pastoralist community in regards to knowledge, ability, commitment, and trust
- ▶ The product was not available to the community in many areas because the agents were nowhere to be found
- ▶ Loss of collected premium was commonly reported
- ▶ Loss of material such as policy documents and mobile phones was common
- ▶ Limited sales results or zero results in many weather divisions

Evaluation of the youth-based sales agency model has led TIA to reevaluate how business is conducted in pastoral regions.

Lead agency model (LAM)

Following the experience from previous sales windows, TIA developed a lead agency model (LAM). This model was a cornerstone for the project; it is this approach that TIA adopted in order to take IBLT services closer to the pastoral communities.

The LAM is based on the concept of recruiting agents across the weather divisions in each county. One of the major challenges of advancing IBLT and ensuring its penetration to the heart of the nomadic livestock keepers is reaching the community due to the geographic vastness of the areas and the lack of proper infrastructure. The LAM addresses this challenge as it guides the sale of IBLT in a way that ensures ease of access to the product for the pastoralists in each of the targeted counties. In this model, there is a sub-agent (at the village or town level) who reports to the lead agent (at the sub county level), who in turn reports to the county coordinator, who reports to the project coordinator.

Initially, the model had at its apex a lead agent for each weather division in the targeted counties. The lead agent, a mature person capable of acting as the main axis in the model, develops a network of sub-agents in every town or village, consisting of potential alternate or sub-agents (such as respected shopkeepers, agricultural vets, livestock extension officers, teachers, and womens' groups). The LAM was developed and implemented from the January/February 2015 sales window (sales window four). The model identified the following as potentially more reliable and available channels and sale points (sub-agents).

- ▶ Community shopkeepers
- ▶ Agricultural vets
- ▶ Organised womens' groups
- ▶ Teachers
- ▶ Extension officers
- ▶ Bank agent
- ▶ Mobile money agents

The model grew from 60 shop agents in January/February 2015 to 278 shop agents in August/September 2015. The change in the distribution channel model also resulted in a significant improvement in the product uptake across five counties (Wajir, Isiolo, Garissa, Mandera and Marsabit). The growth between the last two sales windows was over 300%. However, TIA has restructured this model to a more commercially sustainable one. The previous model, as explained above, had one lead agent per weather division. This meant that there were 54 agents on a monthly retainer, thus costing the company over KES 1.4 million (USD 14,000) every month, which was deemed unsustainable. With this in mind, TIA restructured the model to reduce costs and increase the efficiency of the project. The new model has seen the number of salary-based staff (lead agents) reducing and commission-based staff (sub-agents) increasing. One lead agent monitors about three divisions, now referred to as sub counties.

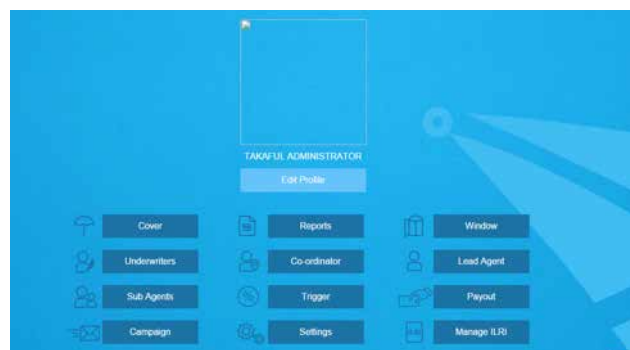
How the LAM works

TIA's IBLT team recruits sub-agents in different locations within each weather division, so that the product can be easily available in every town and village. The selected agents are then trained on the IBLT mobile sales application prior to the beginning of the sales windows. Once trained, the shop agents are given a programmed mobile handset and other product materials. At the backend of the system, the mobile sales handsets are activated on the first day of the window and deactivated on the expiry of the last day of the window. This happens automatically at a systems level. The shop agents are paid 8% commission on their individual sales in each sales window. The use of the LAM has been useful in increasing the reliability and availability of the IBLT product and in reducing transaction costs.

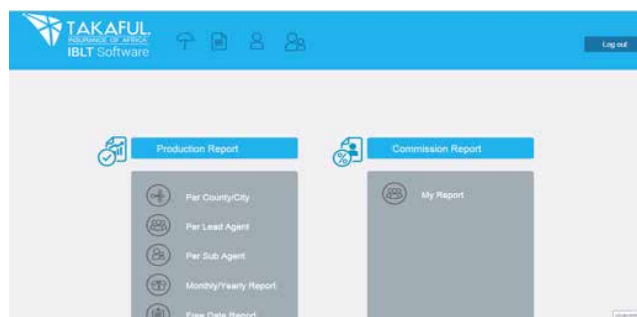
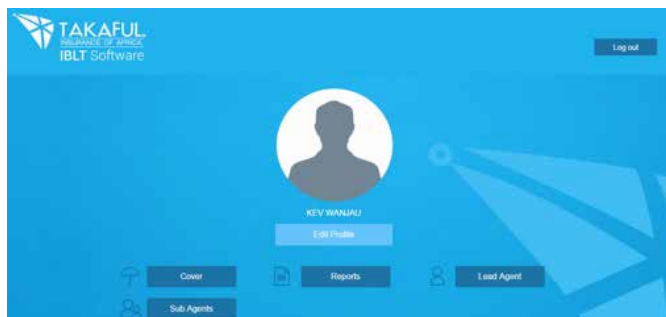
The IBLT system

One of the ways in which TIA has eased and strengthened sales processes, partnerships and monitoring and evaluation of the project is through the development of an in-house system for IBLT. The IBLT system is used by both management and the ground team (agents) to monitor the project and carry out sales transactions respectively. The pilot of this system was launched in August/September 2016 (sales window five), and has since proved to be an important part of the IBLT project. The system enables management to generate and view live sales reports as and when they are needed, and also allows coordinators to only view live sales going on within their respective counties through the backend. TIA management are also able to generate reports, approve/reject sales transactions, manage partners, and enable/disable agents and county coordinators. This function is only available to three super-users. The system back-end also allows agents and coordinators to access reports specifically tailor-made for their function. Below is an example of the backend as viewed by system users.

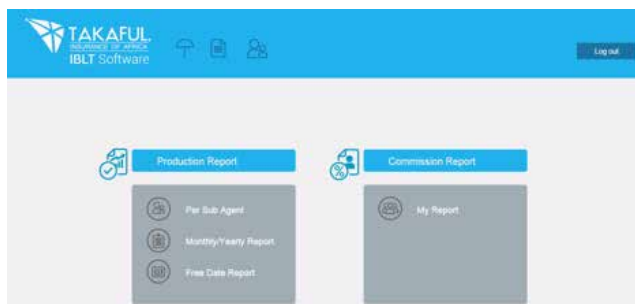
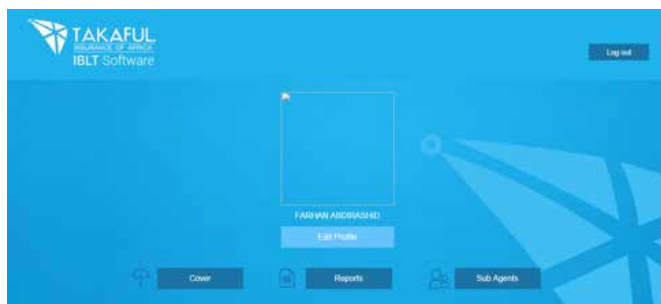
Super-user control panel view



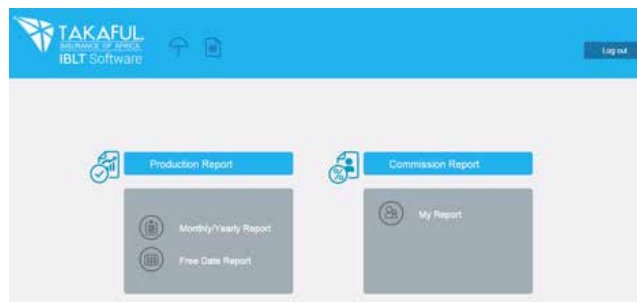
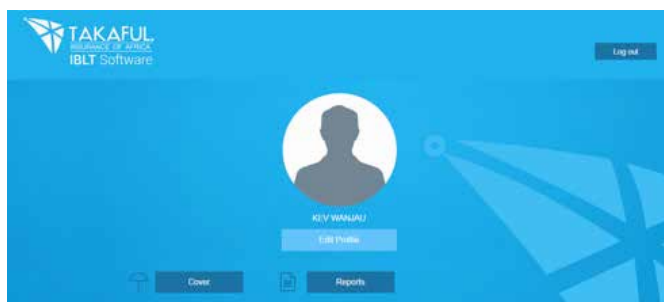
County coordinator view



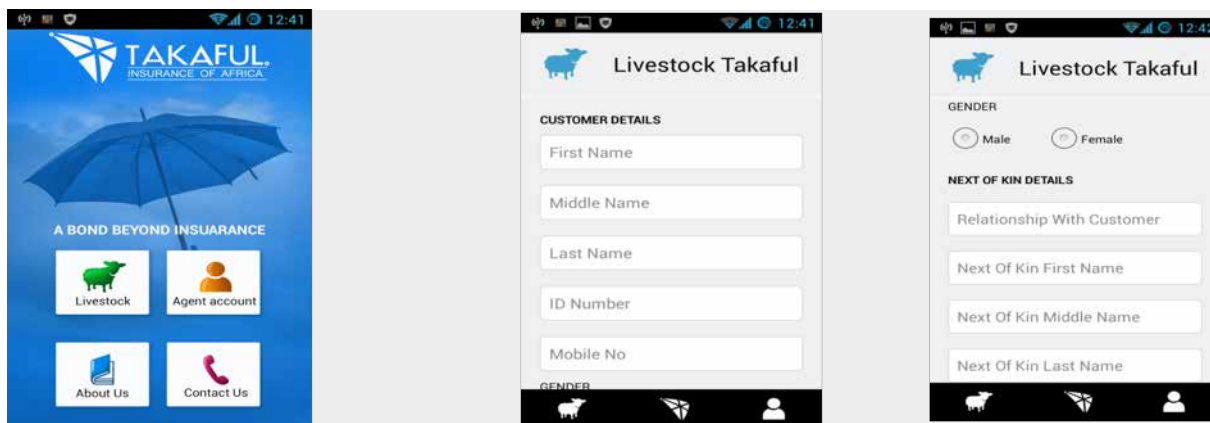
Lead agent view



Sub-agent view



Sub-agents and lead agents also have access to IBLT mobile applications, which allow them to carry out sales during the sales windows. This is known as the ‘system frontend’. It enables the agents to capture key client information during sales, and also inform TIA’s management during payouts, as well as for research purposes. Below is an example of the front end view (through the mobile application) as seen by sub-agents and lead agents during sales transactions.



The system has also improved the monitoring and evaluation systems for the project for both TIA and their partners. With the increase of the number of counties where IBLT is present, monitoring and evaluation was becoming more complex, but the new system played a major role in easing this process which has seen IBLT expand its reach to six counties. The system has also eased the

underwriting processes of the project by removing manual processes such as the calculation of premiums, generation of policies and generation of reports.

Expected growth of the LAM

TIA plans to grow and strengthen the LAM. The table below is the projected growth for the IBLT model across the ASAL regions of Kenya from 2015 to 2019.

Window	January/ February 2015	August/ September 2015	January/ February 2016	August/ September 2016	January/ February 2017	August/ September 2017	January/ February 2018	August/ September 2018	January/ February 2019	August/ September 2019
Number of shops	60	278	389	467	537	591	650	715	787	866
Percentage growth	Base	216%	40%	20%	15%	10%	10%	10%	10%	10%
Number of counties	2	5	6	7	7	7	7	7	7	7

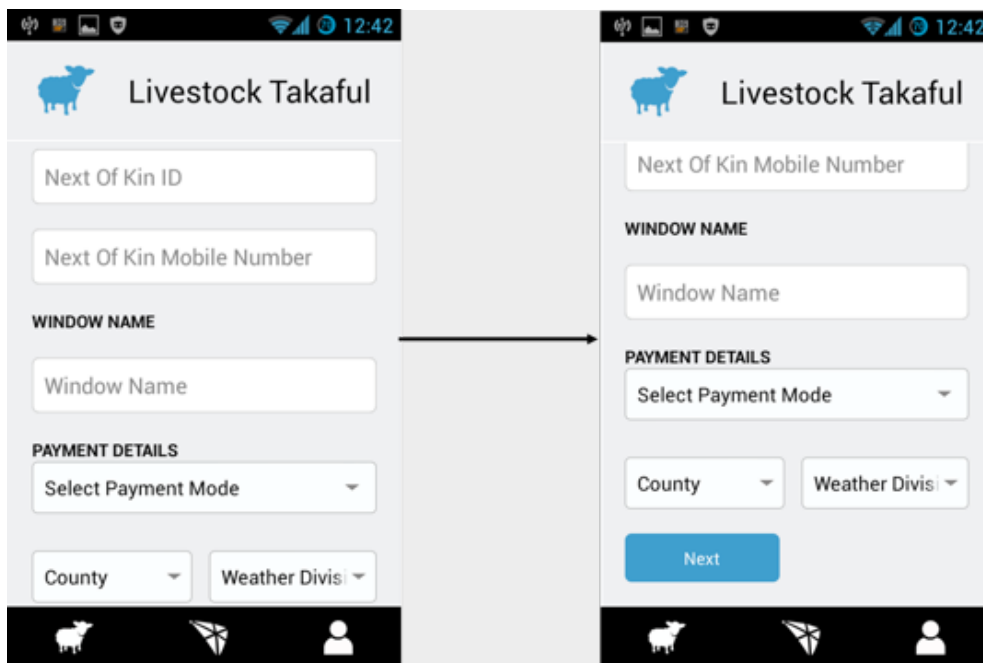
The table estimate assumes that the number of counties remains at seven (ie Wajir, Isiolo, Garissa, Mandera, Marsabit, Moyale and Tana River). However, there is a very high likelihood that the number of counties will increase either through partnership with the Kenya Livestock Insurance Programme (KLIP) or organically through TIA. Such an increase will, of course, have an upward impact on the number of sub-agents.

Key challenges of the LAM

The main challenge of the model emanates from the nature of the index-based product. By design, sales happen twice a year (ie the January/February window and August/September window), therefore there are only four months of active sales in a year. Therefore, the sub-agents only earn commission for this period. This scenario raises several questions that may impact upon the LAM.

- ▶ How can TIA retain the interest of the sub-agents in IBLT during inactive periods?
- ▶ Is commission from the sales of four months in a year sufficient motivation for the sub-agents?
- ▶ What can TIA do to associate a sustained year-long income with the IBLT product or the mobile sales handset?
- ▶ How else could the large network of trained sub-agents be utilised either for the benefit of IBLT or related sectors?
- ▶ How could such employment of the sub-agents help generate additional income for the shop agents?
- ▶ What additional information could be collected, especially during inactive periods, using this large network of community agent shops and the IBLT mobile handset?

ANNEX 5: TAKAFUL INSURANCE OF AFRICA MOBILE APPLICATION



ANNEX 6: FEEDBACK FROM CLIENTS ON INDEX-BASED LIVESTOCK INSURANCE (IBLI)

Policyholders

- ▶ Policyholders need to be informed that a payout is not guaranteed after taking the cover. Payouts are only executed in the event of a projected loss, based on the weather index.
- ▶ Clients would like more people informed about the product to create awareness and especially women, who are becoming key decision makers. If possible, women should be targeted separately. However, if they put their money into something that does not bring profit, they will not renew their policy the following season. So there needs to be an incentive.
- ▶ Clients indicated that they had other insurance needs. The priority to them was education cover because educating children is necessary, but costly. Clients reported that they would be willing to pay KES 1,000 (USD 10) per month for an education insurance policy.
- ▶ The lack of veterinary services has also been a hindrance. The clients reported that their animals were constantly ravaged and suffering from diseases such as beef measles. They confirmed that it has become easier to reach a vet due to the expansion of cell phone accessibility but services are still limited to the towns. They also said that they do not know anyone in their midst who had been to college to study veterinary medicine. However, pastoralists are trained by the veterinary doctors, the Kenyan government and non-governmental organisations (NGOs) such as the Food Agriculture Organisation (FAO). When animals become sick and the pastoralists cannot reach vets, they are able to access and administer the necessary medication themselves.
- ▶ Clients were asked if they would be willing to bring animals to a central location in order to receive medical treatment (similar to the process for vaccinations). They responded that they would prefer to have someone they could access on a need-by-need basis, rather than on a set basis. For example, an animal might become sick a day after the vet has left.
- ▶ Clients seemed reluctant to embrace technology. Pastoralists responded that they rely on agents to assist them with sending and withdrawing money using M-Pesa. Although this poses a risk, the community uses the social responsibility aspect to curb this risk by helping to spread the word when an agent is corrupt.

Agents

- ▶ The agents reported that there were no issues with misunderstanding at the point of sale.
- ▶ The Sheikh expressed that the product was well presented. Agents had been conducting training sessions and advertising in local radio stations, which took place at the beginning of the season. Public forums were also conducted at the beginning of the season for agents and lead agents (public forums were also sometimes organised for pastoralists).



ABOVE TIA IBLI agents, client and a local Sheikh



ABOVE The TIA IBLT mobile app

- ▶ To get more people to sign up for the IBLI products, agents felt that there is a need for increased awareness.
- ▶ Agents felt there is a need to increase training for pastoralists, as well as for Sheikhs, chiefs and elders (ie the individuals that influence decisions in the Islamic community).
- ▶ After training, pastoralists often promise to come back but do not return. This is usually because of the cost issue.
- ▶ Agents were asked if introducing a savings culture would make a difference, if the model was Sharia-compliant. They thought it would work but the community is generally not interested in savings. After a season ends and there is no pay out, they feel that they have lost the money. If there was no pay-out, they would want a refund.
- ▶ Pay-outs are usually public. But when there is no pay-out, the pastoralists would want some sort of compensation at the end of the season, not after two years.
- ▶ Pastoralists have expressed interest in water provision, they would want wells sunk in addition to the provision of forage. They would also want the cover to extend to wildlife, diseases, theft etc.
- ▶ There is a lot of group dynamics. For example if all the neighbours are insured, those who cannot afford it contact their relatives to pay for them.
- ▶ The Sheikh reported involving the Madrassa school system would work. If the Sheikh tells people something is good, they will embrace it.
- ▶ The agents reported M-Pesa texts would not work, even in the local language. The community is not open to technology.
- ▶ The group emphasised the need for boreholes. Most of the livestock keepers are very poor. If possible, they would prefer if the insurance was subsidised, or if the money was provided for them to buy the insurance.

ANNEX 7: PILOT RESULTS

	Metrics	Data	Comments
1	Farmers insured (male vs female)	237	106 male and 131 female
2	Number of cows insured	315	Total tagged in first sales window
3	Percent of farmers' cows insured	9%	NADAFA farmers have an average of 3,500 animals in total
4	Operational cost of insurance per cow	USD 20	Total costs of USD 3,880, the majority of which is spent on three months of product development, implementation and market awareness
5	Percent of cooperatives' farmers insured	9%	2,500 active farmers
6	Number of agricultural input companies (eg fertiliser manufacturers) contributing to the farmer's premiums	0	The plan to involve agricultural input companies for capacity building has not begun. The companies are willing to get involved in market awareness since this would also provide them with an opportunity to showcase their brands, but they have no budget to subsidise insurance
7	Insurance premium subsidies available	0	
8	Premium financing available	Short-term financing is available	NADAFA offers short-term financing (of one month) to farmers to enable them to meet premium payments. These credit facilities are recovered from milk proceeds the following month.

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