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The Empirical Evaluation of the Uptake of Insurance Products in the Sub-Saharan Africa

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Abstract

Purpose: The objective of this paper was to evaluate the uptake of insurance products in Sub-Sahara Africa and develop a framework for increasing its uptake amongst consumers in the region using Botswana as a case. In addition, this paper will contribute to the body of knowledge on the uptake of insurance in Sub-Saharan Africa as there is very limited research in this area. **Design/Method/Approach:** The research adopted a survey design approach by administering a sample 150 questionnaires to various respondents of which 20 were given to insurance practitioners in various specialized areas, 60 to students of the author for distribution to their parents. 20 were given to insurance academicians and 50 were administered to various companies and individuals who either purchase or are potential insurance buyers. The data obtained, was analyzed to arrive at findings and conclusions. To increase the reliability and validity of its findings, the paper used the data in line with the objectives of the research. Furthermore, literature from various scholars on the topic was also reviewed. The response rate of 88% was recorded and the finding was that poverty and lack of income was key factor contributing to low insurance uptake amongst Batswana. Lack of product knowledge by consumers and sensitization by the regulator was also cited as the other contributors.

Keywords

Insurance Products, Low Insurance Uptake, Botswana, Insurance Framework, Insurance and Economy

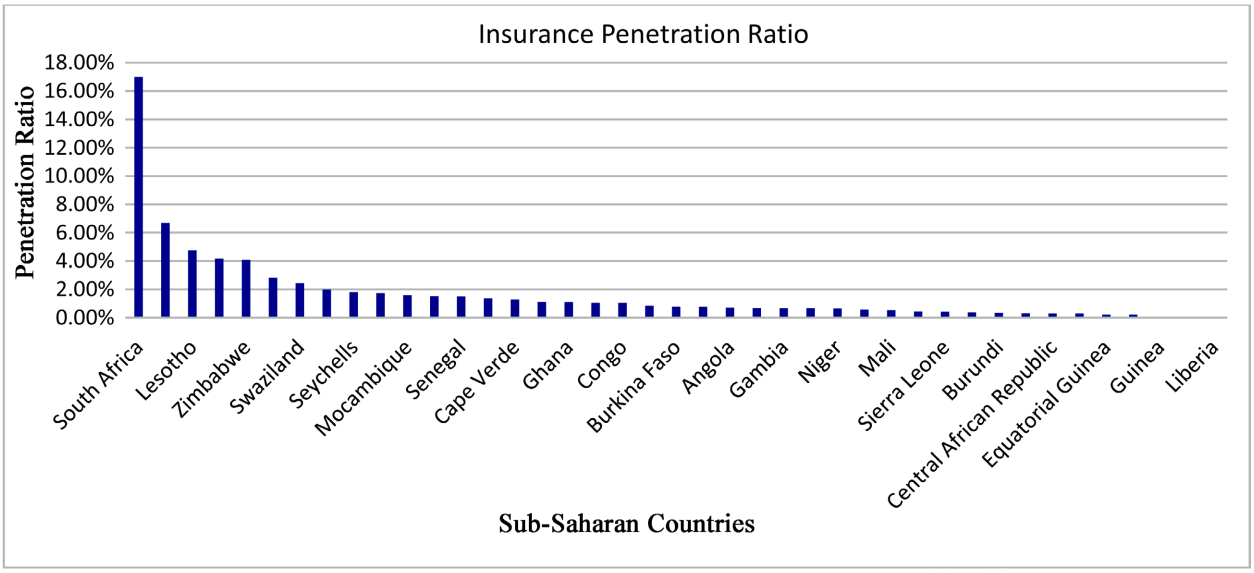
1. Introduction and Background

The average insurance penetration ratio in the world was 7.2% in 2019 (Odunayo & Msomi, 2021). The insurance industry in Africa represents less than one percent of insured catastrophe losses worldwide, despite the increase in population which is estimated at 17 percent of the global population. This is corroborated by Olayungbo & Akinlo (2016) who avers that the African insurance industry remains poorly penetrated in the world. The African Insurance Organisation (2020) reported that the total insurance penetration ratio of the region stood at 2.78% in 2019 far below than the world average of 7%. Withstanding the scope for growth of the insurance industry in Africa, some regions of Africa, particularly Sub-Saharan Africa with exception of South Africa and Namibia have shown extremely low penetration compared to other regions on the continent (Alhassan & Fiador, 2014) as shown in **Figure 1** below.

It has been identified that there are many reasons affecting low insurance penetration including lack of information and public understanding of insurance products and benefits, negative attitudes, cultural and religious values, inappropriate goods, and small distribution channels, to name a few (Africa Insurance Market, 2020). The Insurance Institute of South Africa (2021) reports that many countries in Sub-Saharan Africa still record low uptake of insurance products. The degree of insurance penetration in a country suggests that markets are able to embrace insurance as a risk reduction policy and a source of investment. Low insurance penetration is an indication of less growth (Olayungbo & Akinlo, 2016). Akinlo & Olumuyiwa (2014) posit that insurance greatly contributes to economic development in the Sub-Saharan Africa as it is a key driver for economic growth. Low uptake of insurance remains a concern despite a lot of sensitization on its benefits having been carried out in Sub-Saharan Africa (Hamukwanza, 2021).

Source: African Insurance Market (2020).

Figure 1. The insurance penetration ratio for Sub-Saharan Africa market in 2017.



Source: African Insurance Market (2020).

Figure 2. The insurance penetration ratio for sub Saharan Africa market in 2017.

The insurance penetration rate of South Africa was the highest at 16.7% in Sub-Saharan Africa (SSA) in 2017 followed by Lesotho, Mauritius, and Zimbabwe, which had insurance penetration rates ranging between four and seven percent as demonstrated in **Figure 2**. However, as can be seen in the graph above most of the countries in the SSA region had a rate of less than one percent.

2. Literature Review

2.1. Insurance

Insurance is a contract whereby one person, the insurer, promises and undertakes, in exchange for consideration of a set or assessed amount of money (called a premium), to make a payment to either the insured or a third-party if a specified event occurs, also known as occurrences (IISA, 2021). In other words, it is a contract to pay money in return for a promise from an insurance company to pay for a loss you or a third party sustain. The policy is the contract and defines the coverage that is the conditions and circumstances under which the insured will be financially compensated. Indemnity means that the party insured is entitled to be compensated for such loss as is occasioned by the perils insured against, in precise accordance with the principles and terms of the contract of insurance (Fischer, 1981). The insured should be restored back to the position he/she was prior to the loss. Insurance offers financial protection from known risks occurring or exposed within a stated period and thus making it a risk-sharing arrangement, (Leppert, 2012), cited in (Ackah & Owusu, 2012).

2.2. Short Term Insurance Uptake

In this study, uptake is the number of people who use a service or accept an intervention that is offered in the insurance industry. Non-life insurance refers to the insurance of goods and properties. Insurance that is done for the physical properties other than human life is known as non-life insurance or short-term insurance. Non-life insurance contracts normally run for the time of a year however, it can be workable for cover to surpass a year (Geiss & Geiss, 2015). Nissim (2010) explains this type of insurance as an agreement that provides protection against harm to or loss of property caused by various perils, such as fire, damage or theft, legal liability resulting from injuries to other persons or damage to their property, losses resulting from various sources of business interruption, and or losses due to accident or illness. Ohlsson and Johansson cited in Gitau (2015) define short term insurance as a contract that provides financial protection against harm to people, loss or damage to property and other assets.

2.3. Concept of Insurance Penetration

Insurance penetration rate indicates the level of development of insurance sector in a country. Penetration rate is measured as the ratio of premium underwritten in a particular year to the GDP. Scholars like Alhassan and Biekpe (2016) posit that penetration rate is expressed as the ratio between insurance premium volume and GDP. The International Association of Insurance Supervisors (2020) has gone a step further in defining insurance penetration rate as the country's total insurance premiums expressed as a percentage of its gross domestic product (GDP) and indicates how much the insurance sector contributes to the national economy. The definition is centred on two important variables that are written premiums and GDP.

2.4. Inflation

The study conducted by Sunday et al. (2018) revealed that inflation rate has a positive but insignificant effect on insurance penetration of the Nigerian insurance industry. The implication is that inflation increases the level of insurance penetration in Nigerian insurance industry but the increase was not significant. The study recommended among other things that effort should be put in place to reduce the level of inflation in Nigeria so that it can have significant effect on insurance penetration in Nigerian insurance industry.

Offiong (2020) carried out research to explore exchange rate volatility and insurance sector performance in Nigeria, a long-run investigation. This study applied the vector error correction model to analyses the long-run effects of exchange rate volatility on insurance performance using insurance penetration and insurance density as measures of insurance performance in Nigeria. The period covered by this study is from 1986 to 2018. Findings showed the presence of a significant and positive long-run impact of exchange rate volatility on insurance performance in Nigeria. With this finding the study recommended that a defined and unified exchange rate regime should be implemented to prevent the insurance sector from making abnormal gains from currency variations/mispricing as this is necessary to build a sector that would be robust enough to absorb any exchange rate volatility that may occur in future.

Kjosevski (2011) examined the impact of insurance on economic growth using the insurance penetration as a measure of insurance development, three variables were used: life insurance penetration, penetration non-life insurance and total insurance penetration. The analysis used data for the period 1995-2010 of the Republic of Macedonia using the OLS technique, followed by an analysis of the variability in order to identify the effects of each variable. The result of this analysis shows that the development of total insurance sector positively affects economic growth; this result is confirmed in non-life insurance, while the results show that life insurance negatively affects economic growth.

Jahromi and Goudarzi (2014) conducted a research titled the study of co-integration and casual relationship between macroeconomic variables and insurance penetration ratio in Asia. The study aimed at ascertaining the causal relationship between macroeconomic variables and insurance penetration ratio in Asia. To study the relationship and causality between the selected variables, the study applied the Johansen and Juselius co-integration and Granger causality methodology. The required data were collected from Iranian Central Bank, Statistics Center and Central insurance for the period of 1981-2011. The study found that the underlying macroeconomics variables and insurance penetration ratio are cointegrated and in short term; there is Bidirectional causal relationship between national per capital income and the insurance penetration ratio. The results further demonstrate that there is unidirectional causal relationship from the insurance penetration ratio to the gross domestic product (GDP). In the case of inflation and insurance penetration ratio, the study found no causal relationship between them. Finally, through the use of combined test, the results suggest a causal relationship between inflation, national per capita income and GDP, and insurance penetration ratio in the long-run.

2.5. Income

Empirical evidence has suggested that there is a good relationship between income level and insurance uptake (Das & Shome, 2016; Ndalu 2011). Most recent research draws the conclusion that income (as measured by per capita income) has a positive and significant influence on insurance premiums. This is in line with the insurance penetration ratio in Africa where South Africa has highest ratio. As Dragos (2014) argued, insurance may usually be more affordable to the higher classes, but life insurance can also be cheap to the middle classes in lower-income countries. In such cases, the presence of a wealthier upper class could boost the market for insurance. In total, the market for insurance will depend on the correlation between the sum of income along with the income distribution, which may make the influence of income disparities on the market for insurance unclear. Dragos (2014) found that higher inequality (as measured by the Gini coefficient) does not have a considerable bearing on the demand for life insurance.

2.6. Education

Empirical studies have shown that they is a good association between the concentration of education and uptake of l insurance (Kamau, 2013; Dragos, 2014). Outreville (2015) suggested that higher education helps people to be aware of insurance products, those who protect themselves and their dependents easily. Pradhan et al. (2016) concluded that there is a favourable connection between higher education and the uptake of insurance products

3. Methods

The research adopted a survey design approach by administering a sample 150 of questionnaires to various respondents of which 20 were given to insurance practitioners in various specialized areas, 60 to students of the author for distribution to their parents. 20 were given to insurance academicians and 50 were administered to various companies and individuals who either purchase or are potential insurance buyers. The data obtained, was analyzed to arrive at findings and conclusions. To increase the reliability and validity of its findings, the paper, used the data in line with the objectives of research. Furthermore, literature from various scholars on the topic, was also reviewed.

3.1. Ethical Statement

The researcher sorts the consent of the respondents before data was collected. The respondents had the right to maintain their privacy and were allowed to decline to take part in particular aspect of the research or even withdraw. In conducting this research, the researcher maintained confidentiality to any information that was collected and at all times anonymity was encouraged so as to protect the research participants from any harm or danger that may arise after giving out information.

3.2. Reliability Test

For a research instrument to be considered credible it must be valid and reliable (Sandada, 2015). Therefore, it was deemed imperative to ensure that the questionnaire actually measured what it was supposed to measure. Reliability test was also conducted to ensure that the questionnaire could be depended upon to secure consistent results upon repeated application in future research studies. The reliability of the scale is the degree to which a set of items measure the same construct (Hair et al., 2010). According to Malhotra (2007), a scale is considered to be reliable if the Cronbach's Alpha values are equal to or exceed the recommended threshold of 0.70. From the computation of the Chronbach's Alpha, a significantly notable overall statistic was observed for the questionnaire, whilst the alpha statistics for the variables under study was significantly higher than the minimum threshold of 0.70.

4. Results

According to the average respondent's scores, the most significant demand side factor is the high cost of insurance. The results show that countries with a higher GDP per capita generally have a higher penetration rate. The correlation coefficient between GDP per capita and the penetration rate is moderately positive at 0.49.

5. Findings

5.1. Challenges for Low Life Insurance Penetration

5.1.1. Low Education about Insurance

The IISA (2021) emphasized the need for insurance education so consumer would make informed decisions in purchasing insurance products.

5.1.2. Low Disposable Income

According to Feyen, Lester, & Rocha (2013), income and affordability of insurance products, have a relationship. The higher the income, the more disposable income one has hence the ability to purchase insurance and this view was shared by the Insurance Barometer 2017 and the African Insurance Organisation (2017).

5.1.3. Religious Believes and Culture

People's religious and cultural inclinations may also be a cause for the low uptake of life insurance (Chui & Kwok, 2008). This belief was common in some countries in the Middle East; hence such countries experience low life insurance policies (Beck & Webb, 2003).

The study targeted a sample size of 150 respondents Batswana which 130 filled in and returned the questionnaires making a response rate of 88%. This response rate was satisfactory to make conclusions for the study and agreed with recommendations from Mugenda and Mugenda (1999), who was of a view that a response rate of 50% is adequate, 60 % and 70% and over, excellent for analysis and reporting. Out of the 130 respondents, 20 mentioned that they had insurance policies and another 20, did not have.

A summary of the responses was as follows (**Table 1**).

Table 1. A summary of the responses.

	Number	Percentage
Sample	150	100%
Completed and returned questionnaires	130	88%
Uncompleted questionnaires	20	15%
Respondents with insurance policies	20	15% (as a percentage of the returned questionnaires)
Respondents without insurance policies	50	38% (as a percentage of the returned questionnaires)

Source: Researcher's survey 2022.

5.2. Evidence from Respondents

5.2.1. Poverty and Lack of Income

From the 130 respondents, 72% indicated that lack of income and poverty was the reason they could not afford insurance policies. This result was consistent with Feyen, Lester, & Rocha (2013), who linked the relationship between one's income and the capacity to purchase insurance. The African Barometer's 2017 research also observed that poverty was the greatest contributor to the low uptake of insurance in most developing African countries.

5.2.2. Knowledge about Insurance Policies

However, only 30% of the respondents indicated that they had knowledge of the existence of insurance products with the remaining 70% indicating that they had not been sensitized about these insurance policies.

5.2.3. Religious Beliefs and Culture

15% of the respondents indicated that their cultural and religious beliefs did not allows them to buy insurance policies with 90% indicating that neither culture nor religious beliefs had a bearing on their decision to buy life insurance policies. However, 7% was not sure about either this but the culture does not influence Batswana in purchasing insurance as also stated by the Afrobarometer (2017) and Chui & Kwok (2008) and Beck & Webb (2003).

5.2.4. Bad Claims Experience

Out of the policy holder respondents, only 10% indicated that they had bad claims processes in the past while 90% didn't.

5.2.5. Confidence with the Regulators

20% of the respondents did not have confidence with the regulator of Insurance whilst 30% had confidence in the regulator in Botswana. However, 50% did not know anything about the Insurance regulators.

6. Recommendations

In light of the above analysis, the following recommendations should be considered.

6.1. Government

Government should introduce compulsory insurance on critical insurance products for working citizens and all those in the informal sector, at affordable rates. This would cushion the impact of dependency on governments when the population in the event of death and old age.

6.2. Insurance Players

Insurance companies should change their engagement strategies in terms of sensitization of the existence of insurance policies. They should take the insurance products to people as insurance is not "sold" but bought".

6.3. Regulator

The regulator should take a leading role in sensitizing the public about insurance regulations to both the insurer and consumers for a better understanding of regulations customer. This would increase the uptake of insurance products and awareness in the Sub-Saharan African region.

7. Conclusion

The African insurance industry is still in its infancy, premiums are financially out of reach for many people and financial literacy is relatively low. However, African insurers believe that rising education and financial literacy levels, the growth of the black middle class, and the increase in the working population will have a large impact on the insurance industry in the region.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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