Social Security Gap, Adverse Welfare Shocks, and Digital Innovation for Life and Health Microinsurance in Tanzania

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Summary

Poor investment in financial infrastructure and prolonged low income among people in developing countries has led to underperformance of the insurance sector, particularly health and life insurance. In Tanzania, people's income-generating activities are mainly informal, with agriculture as a key employer for the majority of the labor force—65%. These activities are vulnerable and are barely generating enough income to sustain a decent life. Consequently, low-income people are at risk of a reduction in welfare if they face shocks such as illness or death. These risks require an insurance instrument that will help households return to their pre-shock welfare levels or even further improve their livelihood. If the social security system is not performing well, such households are likely to fall into poverty or remain poor.

This essay briefly discusses the drawbacks of the social security system in Tanzania, where very few people are enrolling in life and health insurance. People with formal employment are enrolled in compulsory pension and health insurance schemes; and major pension schemes, which provide pension and life insurance-related products, are operated by the government. People who are informally employed or employed in agriculture can enroll in specially designed life and health insurance schemes provided by the government or private companies, which are relatively expensive. Therefore, low-income people need an innovative, low-cost, and easily accessible health and life microinsurance scheme. The growth of microinsurance has been remarkable: in a four-year period, Africa's microinsurance premiums grew by about 67%, and 4% of Tanzania's population is enrolled in microinsurance.

The introduction of mobile money in 2008 has led to further innovation in the provision of health and life insurance in Tanzania. Mobile money uses a quick code system to facilitate money

transfers from one person to another through mobile phones. Mobile network operators (MNOs) are enabling digital accounts using subscribers' phone numbers, and anyone with a registered phone number can have a digital wallet and use any kind of mobile phone to operate the account. Customers are serviced by an extensive network of registered money agents, and mobile money has advanced to business-to-business, business-to-person, and person-to-business transactions. These advanced forms of transactions have opened an opportunity to extend the provision of microinsurance to more people. Insurance companies can use this digital technology to collect micro-premiums and disburse the benefits to policyholders.

The essay uses the fourth wave of the World Bank's LSMS-Tanzania NPS[1] data to examine how households' welfare is affected by health and life risks and their efforts to provide cover for such risks. Health and life risks substantially reduce household income—especially when they involve a senior, income-earning member of the household. The ability of the household to maintain a desired level of living diminishes; and if this state is prolonged, the household may fall into poverty. In responding to risks, households without insurance policies may use their savings. Rural households may sell crops and livestock, so such savings may be in the form of either cash or animal and crop stocks. Some households use digital wallets to save their money. Based on this notion, this essay uses mobile money as a key connection to life and health microinsurance. Hypothetically, households with mobile money savings are likely to be better off when it comes to risk coverage among those who reported having used their savings to deal with shocks. The regression results support this hypothesis: mobile money does help to cover shocks—especially those related to health. Households with mobile money savings saw a significant improvement in their relative consumption during periods of critical illness—about 24%. This is about 35% more than those without digital savings.

Based on the discussion and findings, the essay calls for policymakers to make an effort to design appropriate policies necessary to improve access to financial services and facilitate the necessary technological infrastructure to foster more innovation—all of which will facilitate investment in microinsurance provision. Since the growth of mobile money opened insurance opportunities, strengthening financial infrastructures and investment environment has the potential to improve insurance provision as long as that public awareness is considered.

The essay calls on insurance companies to take advantage of mobile money innovation to design microinsurance products for low-income people and thereby improve the provision of services. Because of its convenience, mobile money is increasingly used to facilitate financial inclusion in Tanzania. As transactions are turning digital, more people prefer mobile money; there were about 27 million active digital accounts as of March 2020. With the same idea of maintaining digital savings, people can use mobile money to purchase micro policies and insurance providers can process microinsurance payouts through the same system. Moreover, it is necessary for MNOs and other stakeholders to improve security and increase efforts to curb digital financial fraud to increase confidence in mobile money operations.

[1] The Living Standards Measurement Survey is a series of World Bank surveys conducted in collaboration with various member-countries. The Tanzania National Panel Survey has been conducted biennially since 2008/09.