



**Strathmore**  
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**Factors affecting the low demand and the penetration of life Insurance in  
Burundi**

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**DECLARATION**

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the Research Proposal contains no material previously published or written by another person except where due reference is made in the Research Proposal itself.

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## LIST OF ABBREVIATIONS

ARCA: Agence de Régulation et de Contrôle des Assurances

GDP: Gross Domestic Product

SA: Sum Assured

Fr: Burundian francs

## ABSTRACT

There are different factors that affect the demand and the penetration of life insurance. The Republic of Burundi is the Country with the lowest penetration of insurance, both life and non life. The study aims at identifying the factors that cause this low penetration by assessing the demand for life insurance which is done by asking random Burundians who are working and live in Bujumbura about their income and knowledge about life insurance to be able to identify their needs so that insurance companies are able to satisfy their needs. The main findings about the research are that a big part of the population of Burundi agrees to the need of life insurance for security and also for the future and is willing to buy a policy if they can afford it. Therefore the need for microinsurance is imminent as well as the need for attractive products like ones which combine death and survival benefits.

## CHAPTER I: INTRODUCTION

### 1.1 Background information

Insurance is of great value to society but the overall economy and the society itself is not aware of this important contribution. Most of the stakeholders which are the policyholders, the insurance companies and the public start valuing it when a loss occurs and compensation from the insurance company has to be made. The contribution of insurance to the society is largely defined by its risk sharing; risk pooling and risk transfer abilities and loss prevention measures (Hoppe, 2012).

Insurance companies usually split their services into two departments, Life insurance and General insurance. Life Insurance is an Insurance cover that provides income to the policyholder or his beneficiaries in the event of his death or after a fixed period of time while general insurance is any insurance that protects a policyholder against losses and damages other than the ones covered in life insurance<sup>1</sup>.

There exist several types of life insurance products: A term Assurance where the insurer will provide a payment if the policyholder dies within a specified period of time (Smith, 2005), pure Endowment, a contract where the insurer pays if the policyholder is alive at the end of a specified period of time<sup>2</sup>, an endowment which is a sum of a term and a pure endowment (Slud, 2001), whereby an insurer will pay if the policyholder dies within a specified period of time or if he is alive at the end of the period<sup>3</sup> and last but not least a whole life where The insurer will provide the payment no matter when the policyholder dies (Smith, 2005).

Term insurance is often a good choice for people in their family-formation years, especially if they're on a tight budget, because it allows them to buy high levels of coverage when the need for protection is often greatest. One of the biggest advantages of term insurance is its lower initial cost in comparison to permanent insurance. Why is it cheaper when initially purchased? Because with term insurance, you're generally just paying for the death benefit, the lump sum payment your beneficiaries will receive if you die during the term of the policy. With most permanent policies, your premiums help fund the death

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<sup>1</sup> [http://www.insuranceinfo.com.my/learn\\_the\\_basics/types\\_of\\_insurance.php?intPrefLangID=1](http://www.insuranceinfo.com.my/learn_the_basics/types_of_insurance.php?intPrefLangID=1)

<sup>2</sup> <https://www.irmi.com/online/insurance-glossary/terms/p/pure-endowment.aspx>

<sup>3</sup> <http://download.nos.org/srsec311new/L.No.39-A.pdf>

benefit and can accumulate cash value<sup>4</sup>. Moreover, a number of employers in Burundi offer a type of term insurance known as “group” term to their workers. Group policies cost less, and many companies pay the premiums. Generally, the policy is only good for as long as the worker stays with the company (Smith, 2005). Other benefits of term assurance are mainly as follows; it is renewable, convertible to another policy and death benefits are normally not taxable. However, term insurance has its disadvantages because the premium will change at every renewal and also, it requires more disposable income for someone to be able to convert it to a whole life because the latter is known to be costly<sup>5</sup>. Another popular life insurance cover in Burundi is called outstanding loan cover. It is a product whereby the insurer will pay the outstanding loan to a financial institution in the event that a borrower dies before completing the payments.

### **1.1.1 Assessing the individual’s need of Life Insurance**

Seeking security is what drives a human being to acquire insurance. Early societies used to put their trust in their family and the tribe cohesiveness regarding matters of security. This type of security could not remain practical considering the perpetual developing world. Private and Governmental programs had to be put in place to provide social security and ensure the retention of good standards of living. Therefore, life insurance was one among the solution offered by the private sector<sup>6</sup>.

Death is always an unexpected event. The financial consequences of an individual death can have a negative impact on the standards of living of his or her dependants. To ensure security and reduce worry and distress about their families’ conditions after their death, as well as saving for emergencies and retirement purposes, some of these individuals opt for the purchase of a life insurance product<sup>7</sup>. The OECD secretariat argues that no other privately purchased financial Instrument can provide the above kind of death benefits<sup>8</sup>.

### **1.1.2 Contribution of life insurance to the economy**

According to Souza, it is a well known fact that life Insurance has been one of the largest collectors of long-term savings<sup>9</sup>. He argues that to sustain economic growth and development

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<sup>4</sup> <http://www.lifehappens.org/insurance-overview/term-insurance/>

<sup>5</sup> <http://www.lifehealthpro.com/2013/06/19/whole-life-vs-term-theres-a-clear-winner-here?slreturn=1467351166&page=3>

<sup>6</sup> <http://www.oecd.org/finance/insurance/1857819.pdf>

<sup>7</sup> [http://unctad.org/en/PublicationsLibrary/tdbc3d177\\_en.pdf](http://unctad.org/en/PublicationsLibrary/tdbc3d177_en.pdf)

<sup>8</sup> <http://www.oecd.org/finance/insurance/1857819.pdf>

<sup>9</sup> [http://www.actuaries.org/IACA/Colloquia/Sydney1976/Vol\\_1/Souza.pdf](http://www.actuaries.org/IACA/Colloquia/Sydney1976/Vol_1/Souza.pdf)

there is a constant need to increase the rate of savings in a country and to have a greater control over the utilization of those savings into planned investments. Real Estate growth is also one of the life insurance advantages. Bull (2009) points out the fact that financial institutions will be willing to offer home financing to individuals with life insurance. This would lower the cost of risk because of the low probability of losing their investment. Therefore, many people would be able to afford housing.

On a macroeconomic level, life insurance promotes employment not only regarding the staff and sales personnel of insurance providers but also in some other fields like healthcare, actuarial, accounting, banking and legal. It can also be a source of revenue for the Government when it comes to taxation and licensing fees. Also, life insurance benefits reduce the burden of the government and taxpayers in supporting the aged and the unfortunate. Moreover, it allows a Country that offers life Insurance locally to conserve foreign exchange<sup>10</sup>.

### 1.1.3 Life Insurance Penetration in Africa

The real GDP per capita is a ratio of the monetary value of goods and services produced in each country to the population of that country (Olayungbo, 2016).

Penetration rate indicates the level of development of the insurance sector in a country.

Penetration rate is measured as the ratio of premium underwritten in a particular year to the real GDP per capita. Life Insurance considers only premiums from life insurance policies as a percentage of GDP<sup>11</sup>.

Penetration indicates how much one's spends on insurance on average in a country and it is a measure of insurance consumption that adjusts for income relatively to the size of the economy (Olayungbo, 2016).

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<sup>10</sup> [http://unctad.org/en/PublicationsLibrary/tdbc3d177\\_en.pdf](http://unctad.org/en/PublicationsLibrary/tdbc3d177_en.pdf)

<sup>11</sup> [m.economictimes.com/definition/penetration-rate](http://m.economictimes.com/definition/penetration-rate)

1.1.3.1 An overview of Africa's Life Insurance Penetration

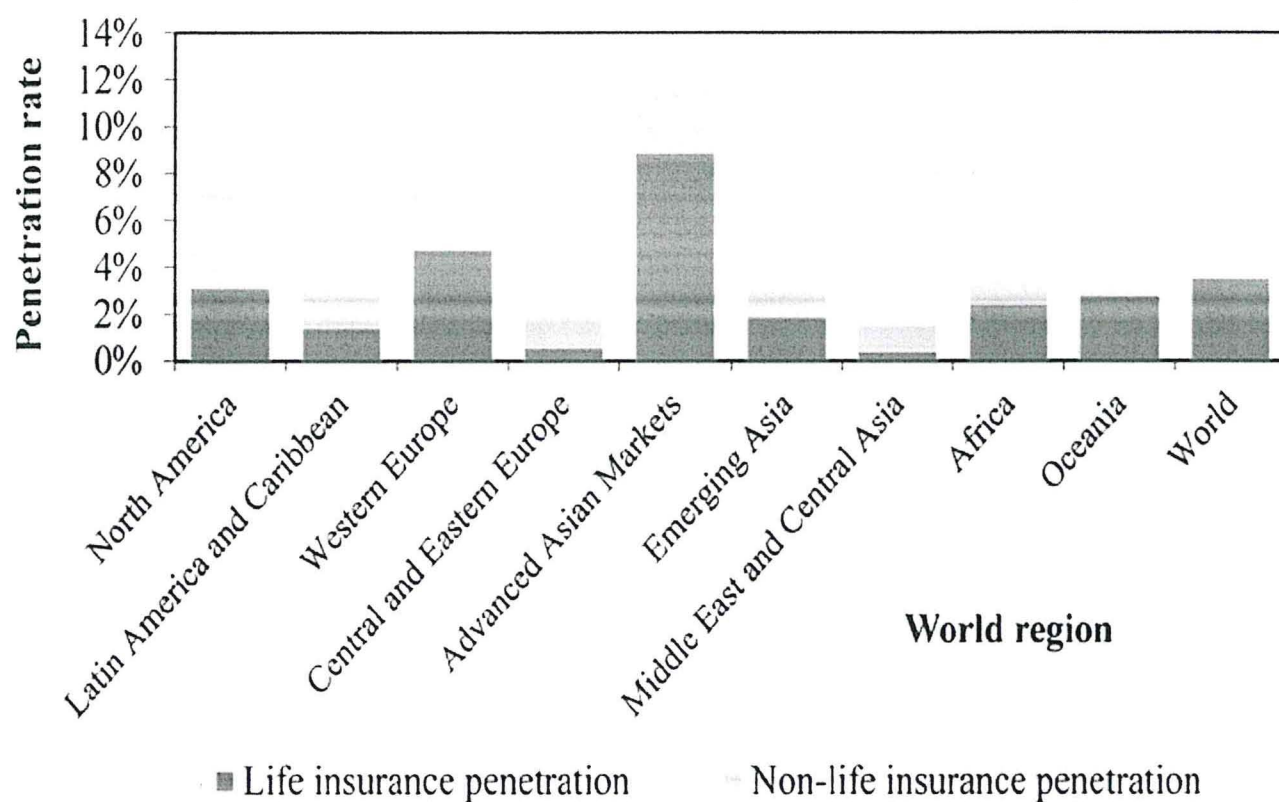


Figure 1: Insurance penetration in the world (SwissRe, 2014). Africa's life insurance penetration is the highest when we consider the emerging markets like Latin America and Caribbean, Central and Eastern Europe, Emerging Asia as well as Middle East and Central Asia (K Bhoola, 2014).

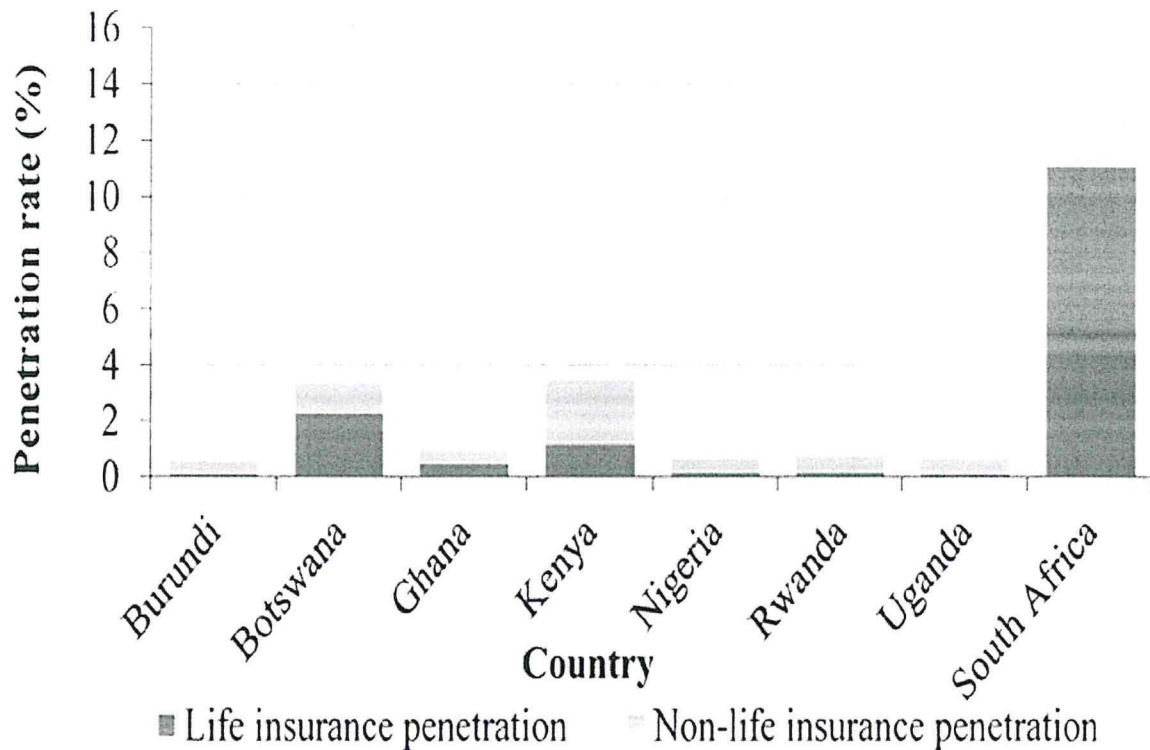


Figure 2: Insurance penetration by some African countries (BMI, 2014c).

Figure 2 shows how life Insurance is underdeveloped compared to non-life in Africa except for South Africa.

Life Insurance premiums in Africa totaled US\$49.9 billions in 2012 of which South Africa accounts for 89.8%. After excluding South Africa, the Life Insurance penetration in Africa is only 0.31% while the density is US\$5 per person per year while the non-life penetration is 0.73% (KPMG, Insurance in Africa, 2014).

#### 1.1.4 Life Insurance in Burundi

As we can see on figure 2, in Burundi, life insurance is practically nonexistent. This is also shown in on figure 3 were the penetration in 2015 was 0.25%, and had been constant since 2013. The fact that it is a country with high levels of poverty is the major issue. Moreover, the awareness about Life Insurance is very minimal. This can be explained by not only the degree of illiteracy in the country but also the cultural beliefs of the population as well as the perception that Life Insurance is too complex.

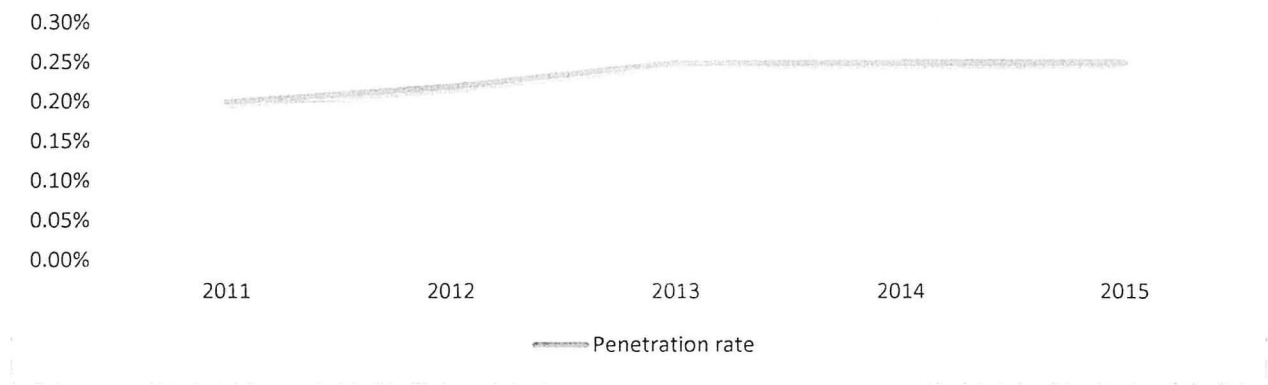


Figure 3: Life Insurance penetration from 2011 to 2015

## 1.2 Problem Statement

Life Insurance is not taken as a basic need in developing countries. In Kenya for example, more than 40% of the population live below one dollar a day, life insurance is considered luxurious and as a rich man's product because of lack of disposable income, hence families do not budget for it (Odemba, 2013). This is also true for Burundi which according to the World Bank<sup>12</sup> is the second poorest country in the world and where the intake is very low. In 2015, the penetration of life Insurance was 0.25% and it had been constant since 2013 (ARCA, 2015). Since companies in Burundi include pensions in the life insurance, 77.5% of the premiums paid in life insurance come from pension, 15.2% of the premiums are paid for products with death benefits only and 2% for products with both death benefits and survival benefits (ARCA, 2015). It is therefore worth finding out why people practically don't purchase life insurance and especially what need they would satisfy by acquiring Life Insurance.

Since there are no specific studies that have been done on the life insurance industry in Burundi, the focus is put on the ARCA 2015 report which gives an overview of the industry.

## 1.4 Research Objectives

The main objectives of the research are to study the causes of low penetration of life insurance, identify the ones that apply to Burundi and identify the nature of the need for life insurance to be able to increase the demand for life insurance.

<sup>12</sup> <http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?view=chart>

## 1.5 Research Questions

This study will answer the following questions:

- 1) What are the main causes of the low demand for life insurance in Burundi?

## 1.6 Significance of the study

The insurance companies, the customers, the Government and the public of Burundi or any other developing country will be the beneficiaries of this study. The insurance companies will get more insight on the reasons why life insurance business is not growing and be able to develop new strategies to increase their sales and meet customer's needs. These strategies will attract more customers from the public and the Government will benefit from all this because it will lessen its social burden since part of it will be taken care of by the insurance private sector. The awareness on the benefits of life insurance as well as the availability will be promoted.

## CHAPTER II: LITERATURE REVIEW

### 2.1 Introduction

In this chapter, we review previous studies on the determinants and the challenges in the uptake of Life Insurance penetration.

### 2.2. Contribution of insurance to the economy

Arena (2006) found evidence that both life and non-life insurance market activity have an impact on economic growth. In his study, he proves that the positive effect of life insurance on the economy is driven by high income countries. Moreover, he explains that insurance market activity may not contribute to economic activity by itself but through complementarities with the banking sector and the stock market. In the banking sector, the development of insurance activity could increase bank borrowing leading to less cost of capital for companies' hence high demand for financial services which contributes to economic growth. The investment of funds raised can contribute to stock market development through some saving products like equities and stocks. Orok Ekpo (2009) agrees by adding that life insurance enhances the efficiency of financial services by bringing a higher level of specialization and professionalism on the part of financial market players, making it possible to finance projects that are bigger or riskier, exploiting economies of scale, trimming transaction cost and increasing financial innovation. All the studies reviewed above on the impact of life insurance on economic growth.

### 2.3 Theoretical framework

Several studies suggested different factors affecting the demand for life insurance but few of them actually apply to Burundi. Income is said to be the main determinant of life insurance penetration; even in South Africa, the African country with the highest penetration, less than 30% of low income earners have insurance meaning that it is worse for the rest of Africa (KPMG, Insurance in Africa, 2014). K Bhoola, T Madzhadzi, J Narayan, S Strydom and HH van Heerden (2014) found that the difference between life and non-life insurance penetration is mainly due to poverty. They explain this by emphasizing that an individual should be in a

position that enables him to satisfy his short-term needs before thinking about the long-term; therefore life insurance is not an affordable investment for most of the African countries. Moreover, it was found that income plays a major role in the consumption of life insurance products. An increase of 1 percent in aggregate income can be expected to induce at least a 0.6 percent increase in aggregate life insurance demand (Donghui, Fariborz, Pascal, & Timothy, 2007). Guerineau and Sawadogo (2015) argue that income is an essential variable in the life insurance consumption because of the necessity to maintain a certain level of income for the dependents in case of premature death. The above arguments can help us deduce that Burundi's low life insurance penetration could mainly be caused by the low levels of disposable income in the country.

A study demonstrated that the level of education affects the demand for life insurance in two aspects. First, a higher level of education is associated with a stronger desire to protect dependents and safeguard their standards of living; second, a higher level of education results in a greater awareness of life's uncertainties and hence highlights the importance of life insurance coverage. This study also proved that a country's level of financial development appears to be a strong determinant of its life insurance consumption. As they accumulate more financial assets, households also purchase more life insurance (Donghui, Fariborz, Pascal, & Timothy, 2007). Nesterova (2008) adds another factor by arguing that as life insurance is considered to be a long-term relationship between a consumer and a company, the more stable is the legal system and, therefore, a political system in the country the higher is the willingness of contracting parties to initiate the business relationships. Therefore the current political situation in Burundi might also be a factor that hinders the development of life insurance.

In most emerging economies, the understanding of life insurance is very minimal. There are little or no training programs. The degree of experience and technical skills is also a determinant of life insurance penetration because risk selection, product design and actuarial methods are quite vital as risk management techniques. As a result, domestic companies lack experienced and qualified staff which questions their ability to estimate risks<sup>13</sup>. This was also pointed out by Orok Ekpo (2009) in his study where he adds that the lack of expertise is an issue that can be

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<sup>13</sup> <http://www.oecd.org/finance/insurance/1857819.pdf>

resolved gradually as more professionals are turned out and more experience is gained. Insurance companies in developing economies also suffer from the lack of reliable data bases on which to base their actuarial calculations and tariffs<sup>14</sup>. The availability of Mortality tables and morbidity data is a sign of life insurance development because these are essential in pricing life products (K Bhoola, 2014). It is only by instituting and putting in place a reliable system of data collection that this problem can be overcome (Orok Ekpo Orok-Duke, 2009). These are challenges faced from the supply side and they reflect the life insurance industry in Burundi.

Other macroeconomic variables that affect the demand of life insurance were found to be inflation, interest rates, and price. In their study, using price elasticity and different statistical tests, Lim and Haberman (2003) found that savings deposits rate and the price of insurance have respectively a significant positive and a negative relationship with the demand for life insurance meaning that higher interest rates on saving products and increasing cost of purchasing life insurance products tend to cause insurance products to be less attractive. Sulaiman, Migiro and Yeshihareg (2015) did not find anything related to savings deposit rate but they proved that inflation was statistically significant on both the life insurance demand as well as the supply in Ethiopia. They emphasized that with high inflation, individual households might refrain from investing in life insurance products because it would lead to an increase in the price. These findings are consistent with that of Ngwenduna, Hayes and Angove (2015) who showed that any African country with an environment that is hampered by high levels of inflation will definitely reflect low level of life insurance consumption. Ngwenduna, Hayes and Angove (2015) also agree with Lim and Haberman (2003) on the contribution of savings rate to life insurance consumption. In 2013, the inflation in Burundi was 8% which is very high compared to other East African countries as shown in the figure 3, and in 2012, it was listed 146 out of 148 countries in the global competitiveness (KPMG, 2014). The gross domestic savings was 2% of the GDP in 2014<sup>15</sup>. The relationship between life insurance demand and the above macroeconomic variables is emphasized by the fact that some bank products and investments might be more attractive to the public more than life insurance products<sup>16</sup>.

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<sup>14</sup> <http://www.oecd.org/finance/insurance/1857819.pdf>

<sup>15</sup> <http://databank.worldbank.org/data/reports.aspx?source=2&series=NY.GDS.TOTL.ZS&country=>

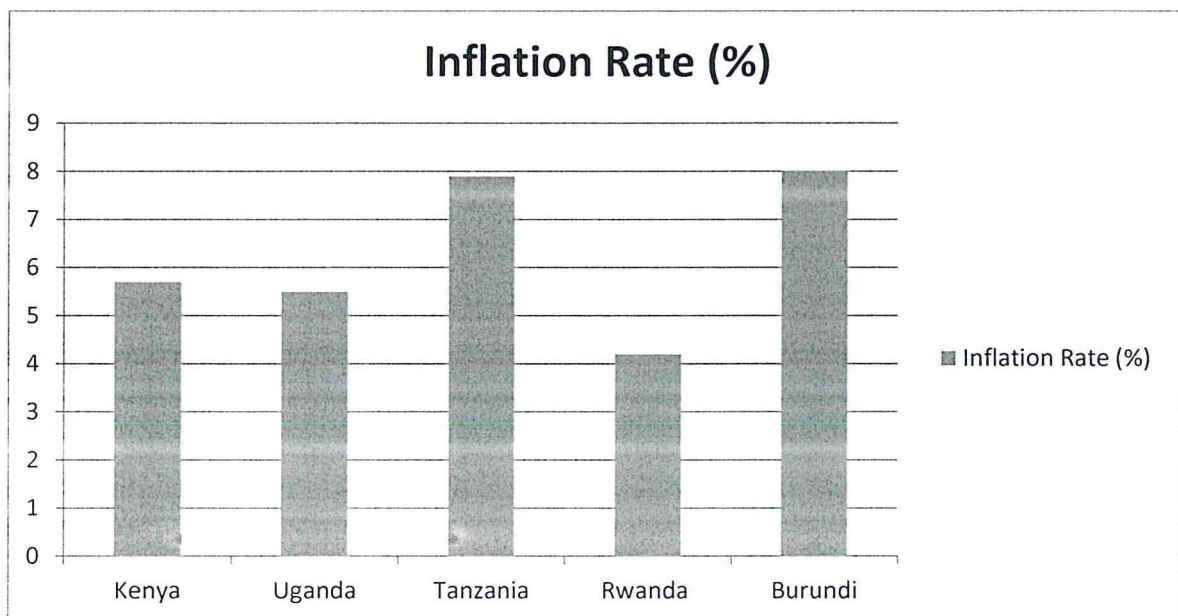
<sup>16</sup> [http://www.huffingtonpost.com/michael-lazar/life-insurance-alternatives\\_b\\_7832936.html](http://www.huffingtonpost.com/michael-lazar/life-insurance-alternatives_b_7832936.html)

This empirical literature explains the low penetration of life insurance with reference to the factors discussed above. However, there is no literature available about the price of life insurance.

<b>ECONOMY</b>	<b>Rank/148</b>	<b>Score</b>
Highest Ranking –Switzerland	1	5.67
Rwanda	66	4.21
Kenya	96	3.85
Tanzania	125	3.25
Uganda	129	3.45
Burundi	146	2.92
Lowest Ranking – Chad	148	2.85

*Table 1: The Global Competitiveness Index 2013-2014.*

A country’s competitiveness is widely accepted as the key driver for sustaining prosperity and raising the wellbeing of its citizens. Enhancing competitiveness is a long-term process that requires improvement across many areas as well as long lasting commitments from relevant stakeholders to mobilize resources, time and effort. Accordingly, to make the right decisions, these stakeholders need information and data. Competitiveness is determined by looking at all of the factors, institutions and policies that determine a country’s level of productivity (KPMG, 2014).

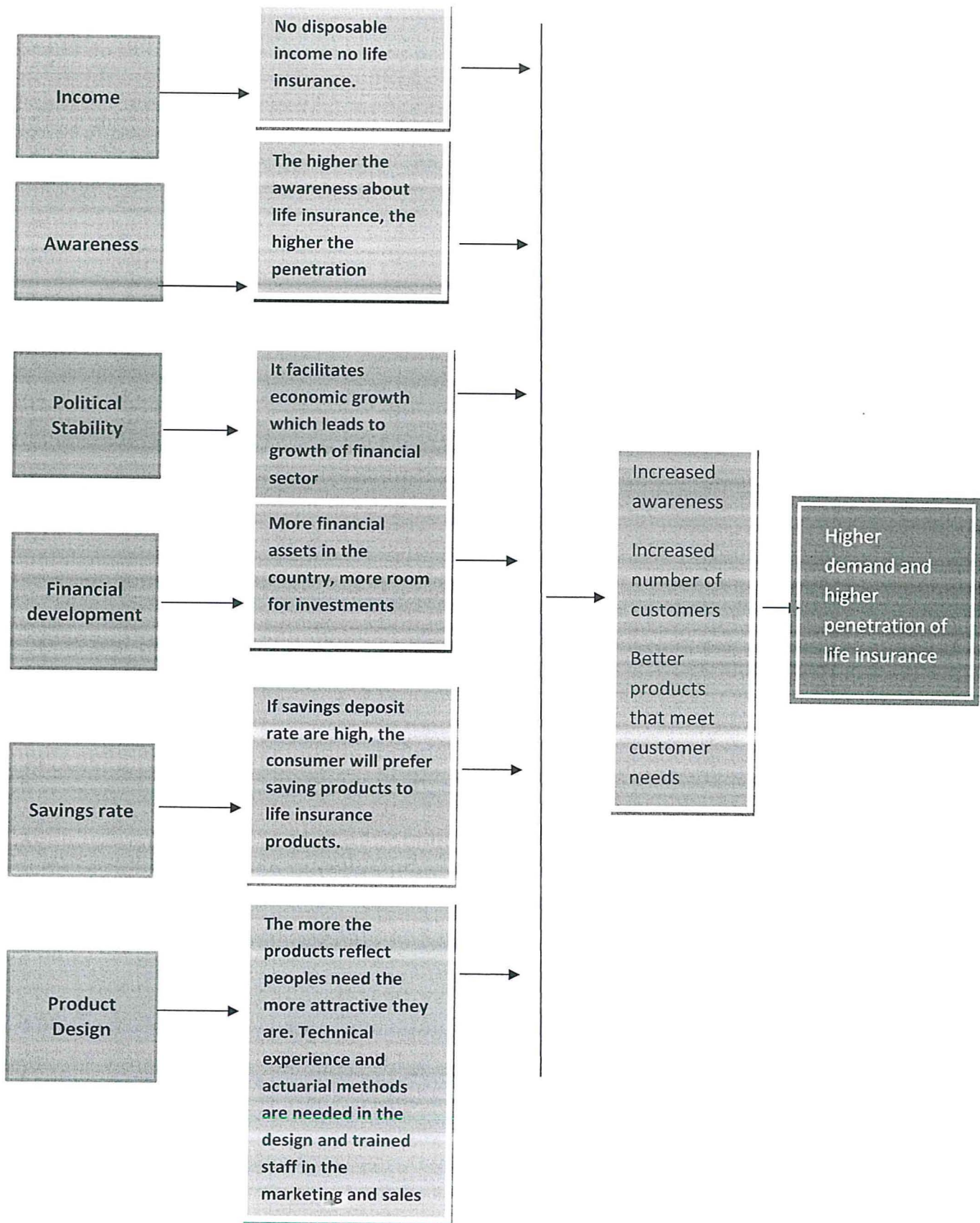


*Figure 3: Inflation rate in East Africa (KPMG, 2014).*

#### 2.4 Research gap

There have been a number of valuable studies on the world insurance industry all of which present evidence on a number of factors affecting performance of the general insurance industry and characteristics on the sector. However, except the observations made by ARCA (2015) which attests that the low penetration of life insurance in Burundi is due to the low development of the insurance culture in general, the misconceptions and ignorance of life insurance and the low levels of income of the population; no particular study has been made on the factors affecting the penetration or the demand for life insurance in Burundi. Life insurance sector has been contributing almost nothing to the GDP of this country due to low intake of life insurance products which is affected by various factors explored under this study.

#### 2.5 Conceptual framework



## **CHAPTER III: METHODOLOGY**

### **3.1 Introduction**

This chapter describes the details on how the research was conducted and a description of what kind of research it was.

### **3.2 Research design**

The research design for this study will be descriptive to summarize and organize data in an effective and meaningful way. Mugenda and Mugenda (2003) notes that a descriptive survey research attempts to collect data from members of a population in order to determine the current status of that population with respect to one or more variables.

According to Best and Kahn (1993) study( as cited in Nzenga, 2008), descriptive research is also concerned with: conditions or relationships that exist, practices that prevail, beliefs, point of view, or attitudes that are held by people, processes that are going on, effects that are being felt, or trends that are developing. It is concerned with what exists and related to preceding event that has influenced or affected a present condition or event.

### **3.3 Population and sampling**

The target population is the working population of Bujumbura, the capitol city of Burundi. This is because life insurance can only be purchased by a person with an income. However we will also remove the population aged above 57 because they are above the life expectancy which means that a life insurance cover would have to be personally tailored hence very expensive.

Random Sampling was used.

The limitation of the study arises because getting a big number of respondents was a challenge because of the complexity of life insurance in general and the low level of education in Burundi. Therefore with these constraints and lack of ressources, the study only got 40 respondents.

### **3.4 Data Collection**

A structured survey questionnaire was administered by the researcher to the respondents who were required to complete them. A sample of the questionnaire is attached as appendix 1 of this research project. The questionnaire contains two sections. The first section contained general data of the respondent, which was useful in the analysis. The second section contained some differential belief statements, which the respondents were to tick or complete as per their level of agreement. The researcher approached people one by one, explained what the research was about and requested them to kindly fill the questionnaire. The filling of the questionnaire was done in the presence of the researcher in case of any clarification to be made. The data collection was done therefore through interviews with respondents.

Secondary data was collected from the internet, the World Bank site.

### **3.5 Data Analysis and Interpretation**

Data was checked for accuracy and completeness of recording of the responses. It was then analyzed using descriptive statistics. For the above purpose frequencies and percentages were used. Tables and graphs were used in the presentation of the data.

## CHAPTER IV: DATA ANALYSIS AND FINDINGS

### 4.1 Introduction

This chapter describes the findings of this study and gives a detailed explanation of the implications of the findings. An identification of the reasons for low penetration is made from the point of view of the public.

### 4.2 Social demographic characteristics

#### 4.2.1 Response rate

The researcher wanted to consider 96 people which were a number found using systematic sampling but due to the limitations and constraints discussed in chapter 3, only 40 accepted to take part into the research. Out of those 40, the response rate was 100%.

#### 4.3.2 Gender

From the findings, 57.5% of the respondents were male and 42.5% were females. The researcher made an observation that men were willing to take part into the research and they seemed more interested into the idea of a life insurance policy. The figure belows shows that majority of respondents were male.

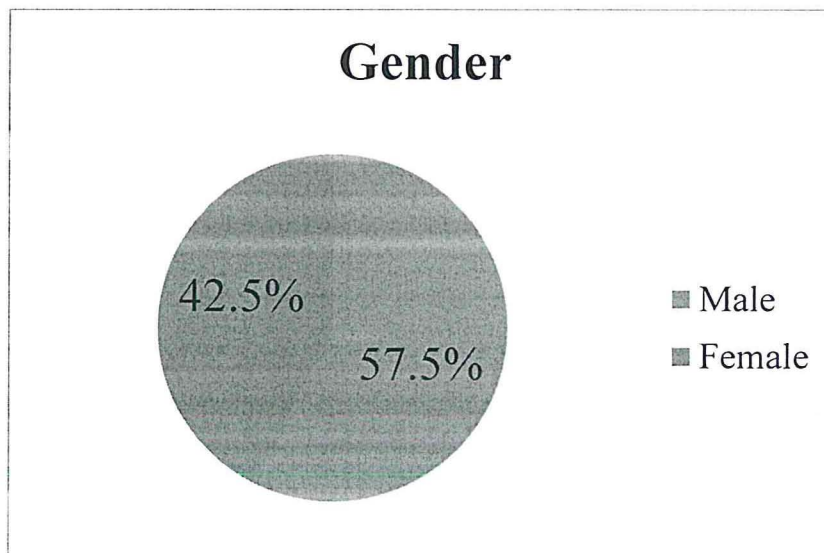


Figure 4.2.1: gender

#### 4.2.2 Age

Age groups were made and the respondents indicated which one they belonged to. The starting age was 18 years old and the latest was 57 years as it is closer to retirement and greater than the life expectancy.

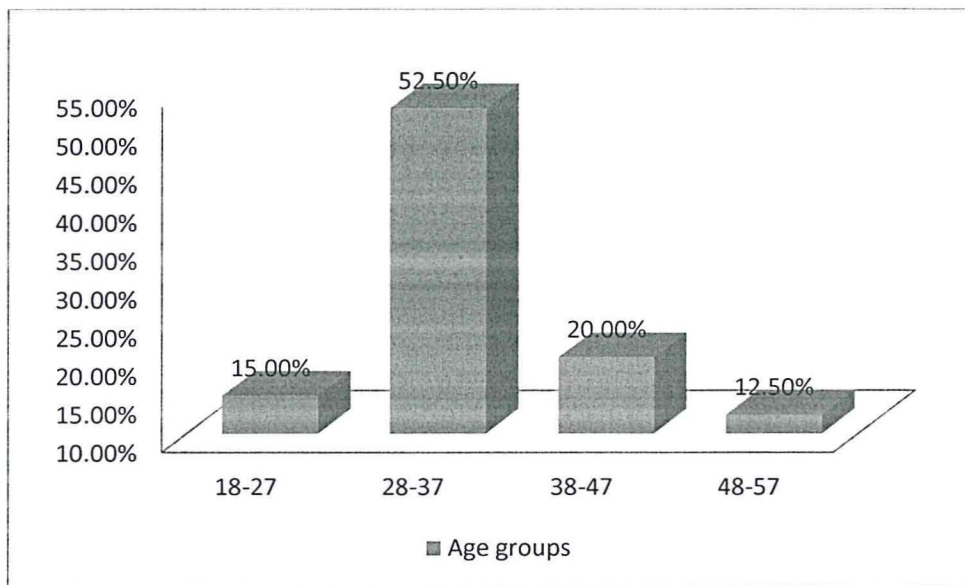


Figure 4.2.2: Age

The majority of the respondents were aged between 28 and 37.

#### 4.2.3 Marital status

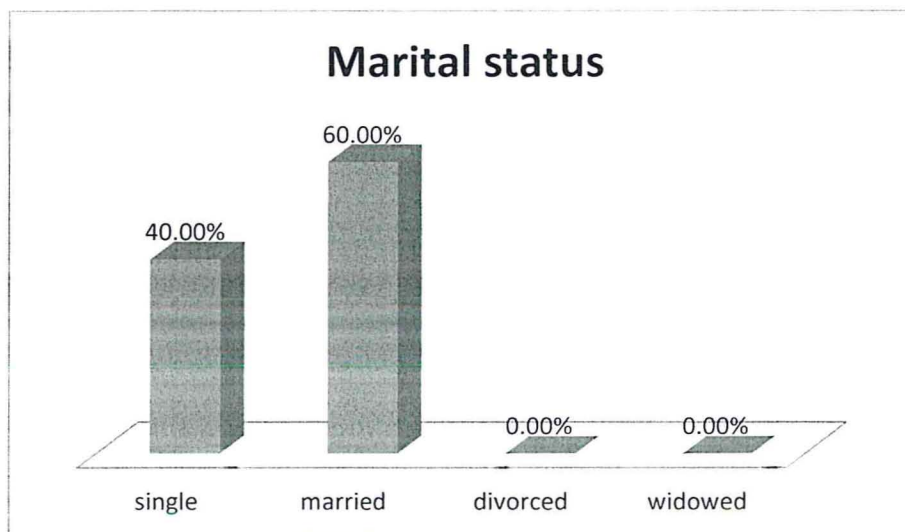


Figure 4.2.3: Marital status

60% of the respondents are married and the rest, 40% are single. Most of the views that were given came from people with families hence with dependents.

#### 4.2.4 Number of children

Despite the big number of married people, half of the respondents have no children yet while 20% have between 1 and 2 children, 17.5% have between 3 and 5 and 10% have 5 or more.

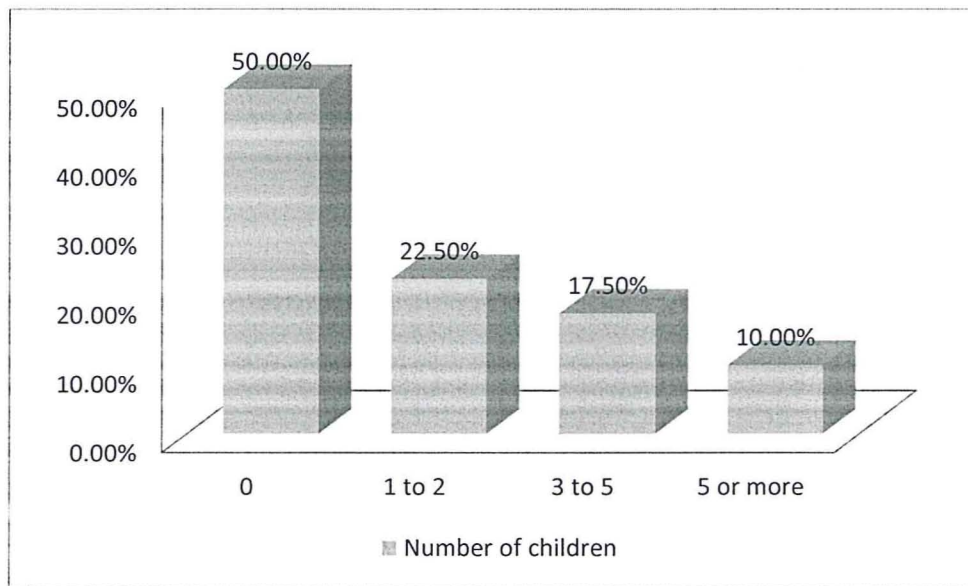


Figure 4.2.4: Number of children

### 4.3 Factors affecting the low demand of life insurance

#### 4.3.1 Income level

The respondents were asked about the amount of their monthly salary. Findings show that majority of the respondents earn between fr 200,000 and fr 300,000. The next group earns between fr 500,000 and fr 800,000. 69.2% of the first group and 33.3% of the second one says that they cannot afford life insurance. This means that most of them don't have disposable income to allocate on life insurance expenditure.

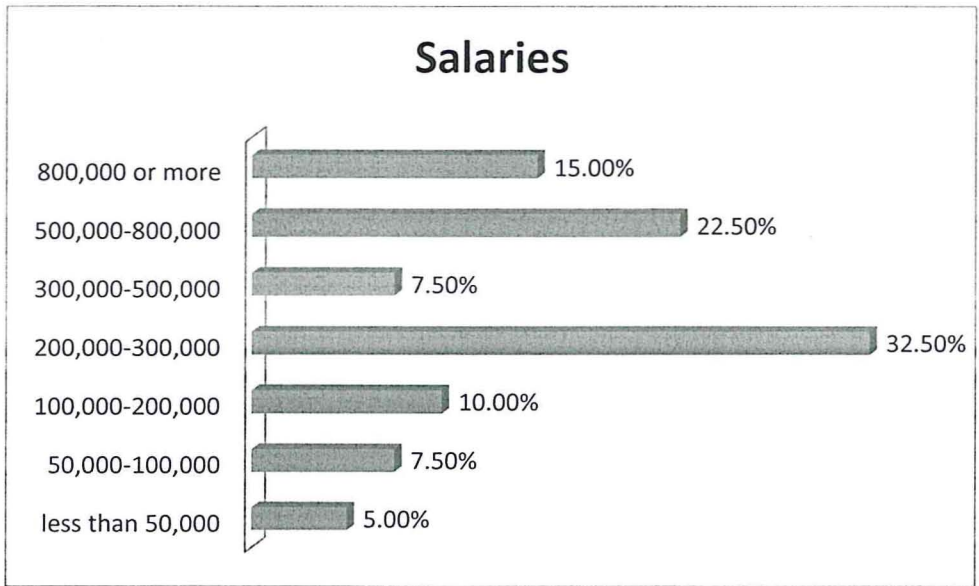


Figure 4.3.1: Monthly income

Despite the fact that only 57.5% say that they can satisfy their basic needs, 77.5% of all the respondents would be ready to acquire a life insurance policy for the future needs of their dependents at different levels of premium since income is not the same for all. Only 22.5 % are not willing to purchase life insurance. Therefore, if insurance companies were to suggest products for any amount of premium, the public would be interested in their purchase. The figure below shows the amount those 77.5% are willing to spend on life insurance.

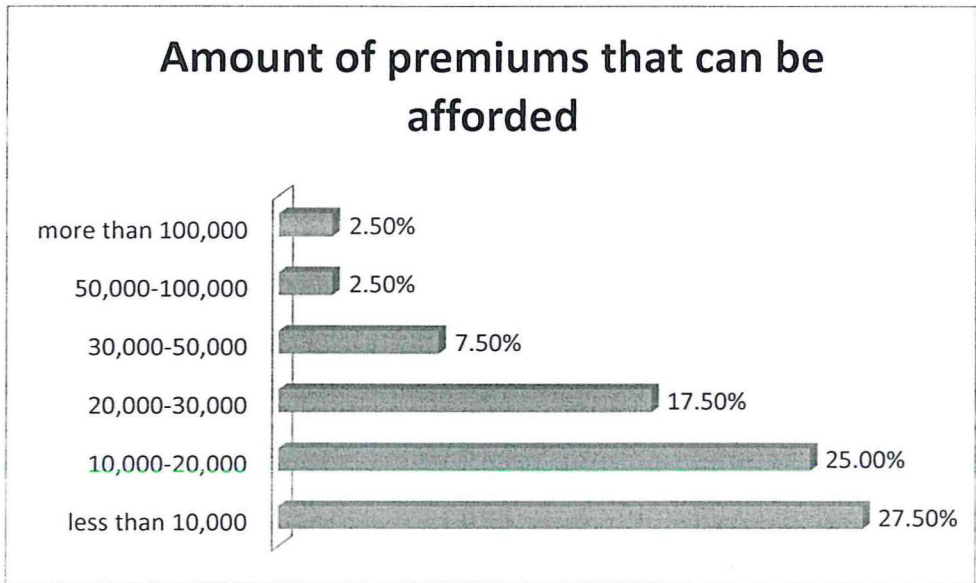


Figure 4.3.2: Amount of life insurance premium that can be afforded by respondents

This is where price comes in as a determinant because products have to be priced according to the affordability of the public.

From the above we can conclude that the study confirms Guerineau and Sawadogo (2015) 's argument which says that income level is one of the main determinants of the demand for life insurance in Burundi. Micro insurance should be introduced so that everyone with their own disposable income can access life insurance.

#### 4.3.2 Awareness

As we talked about the level of education being an important determinant of life insurance demand in chapter 2, we will look at the degree of awareness about life insurance in Bujumbura. 62.5% of the respondents say that they've never heard about life insurance. This shows how much the public's knowledge about life insurance and its benefits is very minimal.

#### 4.3.3 Political stability

Given the current situation in Burundi, the researcher decided to ignore the effect of political stability to avoid the refusal of the public to take part into the research. However, political stability is usually reflected in the economy because it hinders financial development. This means that the effects of political instability can be considered through GDP.

Year	2011	2012	2013	2014	2015
<b>GDP per capita, PPP</b>	712.6705	730.0336	750.594	773.703	727.151

*World Bank data*

From 2014 to 2015, the GDP growth was negative due to the political tensions that started in April 2015 as stated by the African Development Bank<sup>17</sup>. This means that the Burundian economy was hindered as well as all the financial sectors which include the insurance sector. Therefore an increase in the penetration rate was practically impossible with such events.

#### 4.3.4. Savings

<sup>17</sup> <https://www.afdb.org/en/countries/east-africa/burundi/burundi-economic-outlook/>

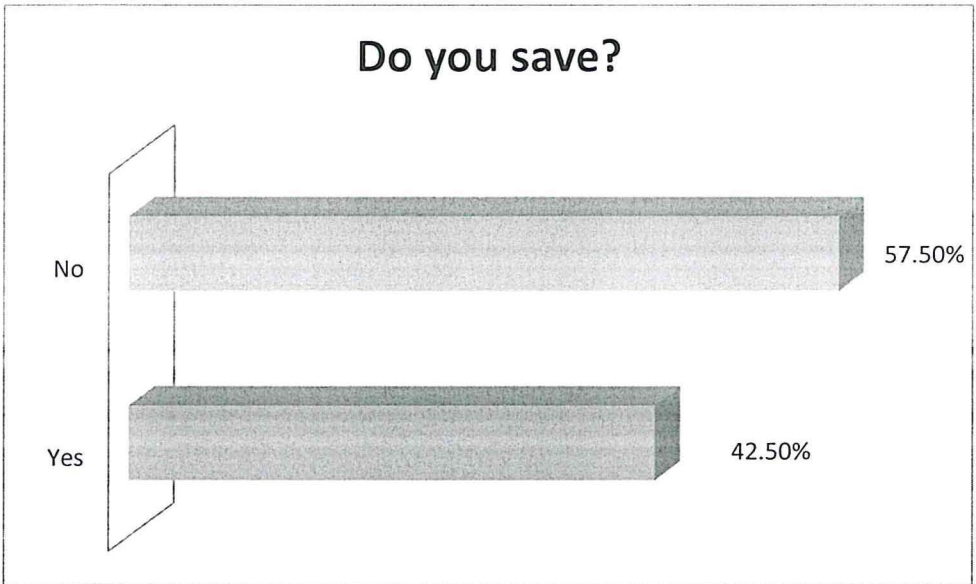


Figure 4.3.3: Shows the number of people who save and the ones who don't

57.5% of the respondents said that they didn't save and 9.09% of them said that they were not willing to start saving. However, 95% of the respondents, savers and non savers included, chose the amount of money that they save or are willing to save every month as shown below.

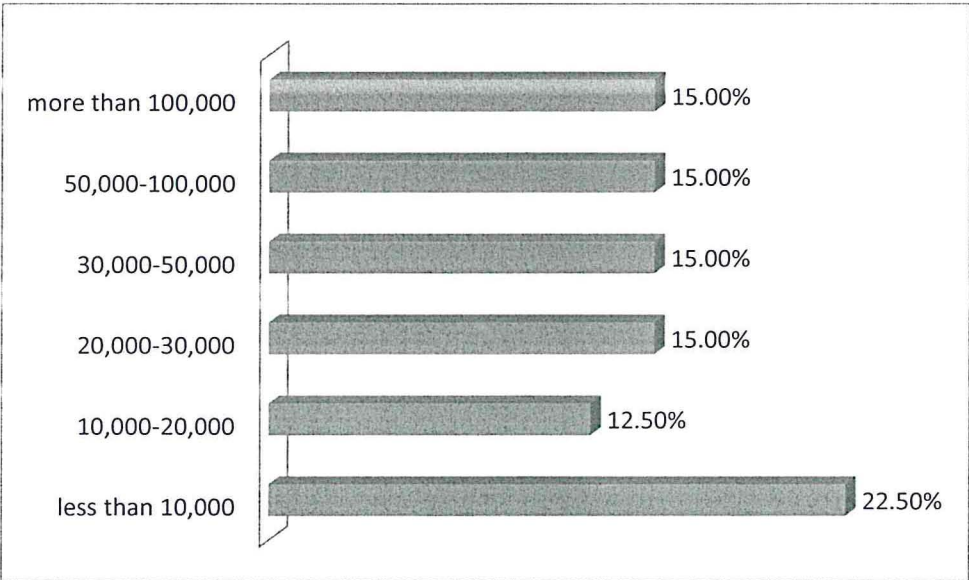


Figure 4.3.4. : How much respondents save or how much they are willing to save

From all this we can see that people are really attracted with savings and if the bank savings rates are high, people might go for bank products like the 42.5% of the respondents. However, if life insurance were to offer savings products with higher rates and a death benefit, it would even

attract the 42.5%. Savings deposit rate has therefore a negative relationship with penetration of life insurance.

#### 4.3.5. Inflation

The inflation rate in Burundi went from 4.38% in 2014 to 5.55% in 2015 as it was collected from the World Bank<sup>18</sup>. Inflation rate increases with GDP growth<sup>19</sup>. However if inflation rises while GDP declines as it happened in 2015, it means there is an increase in the price levels with no increase in income. Therefore, there is less disposable income for the population hence low demand for life insurance. This shows that penetration cannot increase in these conditions.

#### 4.4. The supply of life insurance

There are only 4 insurance companies in Burundi that offer life insurance. Below is a table showing the companies and their market share in 2015.

<b>Companies</b>	<b>Market Share</b>
<b>SOCABU VIE</b>	69.21%
<b>JUBILEE VIE</b>	13.32%
<b>BICOR VIE</b>	8.60%
<b>SOCAR VIE</b>	8.88%

The above 4 companies offer different products as described in the introduction which are mostly pension and term insurance.

Burundi has no actuaries and the staff that works in life insurance companies has no technical background that would help in the design of products. They have to outsource actuarial services. The design of attractive products which meet the consumer's needs becomes hard for the local

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<sup>18</sup> <http://data.worldbank.org/indicator/FP.CPI.TOTL.ZG?locations=BI&view=chart>

<sup>19</sup> <http://www.investopedia.com/articles/06/gdpinflation.asp>

life insurance companies not only because of lack of technical staff but also due to our research gap.

Another observation is that life insurance companies of Burundi do not have qualified sales staff with knowledge about the products. Moreover, these companies also don't have a marketing department to assist with sales promotions and promote awareness (ARCA, 2015).

## **CHAPTER V: DISCUSSIONS**

### **5.1 Summary**

The study aimed at analyzing the causes of low penetration of life insurance with respect to the demand of life insurance. Out of 40 respondents, 77.5% are willing to take insurance since none of them has a life insurance policy. Moreover, 95% of these respondents are also favorable to holding savings even if 57.5% do not have any yet. All this is possible if they are to choose the amount of money they would pay for it.

However, the degree of awareness is very low since 62.5% of the respondents had never heard about life insurance. Political instability implies a lower GDP hence lower disposable income. Financial development means economic growth which increases people's disposable income. Inflation affects the demand for life insurance if for example prices rise and income stays the same. In this case the disposable income reduces.

A considerable amount of technical skills and experience in the insurance industry is required to know how to interpret data such as the one collected in this study, and be able to reflect it in the products sold to be able to meet people's needs. This demands actuaries and other insurance professionals. Product innovation is hard without their estimations especially for the sake of profitability.

### **5.2. Conclusion**

A conclusion to this study is that different factors affect the life insurance demand and penetration in Burundi especially level of income and public awareness about what life insurance entails. Only a person with disposable income can be able to purchase a life insurance policy. Political stability, financial stability, savings rate and product design are also factors that affect the demand and penetration of life insurance. All these factors cannot be well studied and analyzed without a proper survey to identify the needs of the customer. Insurance companies also need to consider these needs when designing products.

### **5.3 Limitations of the study**

The study had several limitations especially on the data collection stage. Respondents were not many due to the fact that most people do not know what life insurance is and its benefits. Therefore, the researchers had to answer all their questions and then help them fill the questionnaire. This was time consuming. Moreover, many people refused to take part into the research because they were not going to benefit from it. The research didn't have resources to allocate to that. Also Insurance Companies refused to share data with the researcher.

### **5.4. Recommendations**

The Insurance Companies need to conduct studies to identify all the factors and use them to develop strategies that will help them increase their sales hence penetration. Also, they should also get qualified professionals like actuaries to help with the technical work.

The Regulation Authority should find a way to assist in the introduction of micro-insurance so that every citizen is enabled to get cover at low costs and also assist in the training of insurance companies' staff to promote better services to the customers.

### **5.5. Suggestions for further research**

Studies need to be conducted using more variables that seem to be pertinent to the study. The studies should be conducted to investigate the interaction of other variables that influence the growth of life insurance business. A replication of the study needs to be done using a larger sample so as to give more insight on life insurance business. Other factors that affect the whole insurance industry may also be given an in depth analysis through a similar study.

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## APPENDIX

### QUESTIONNAIRE (In English)

1. Gender:

- Male
- Female

2. Age:

- 18-27
- 28-37
- 38-47
- 48-57

3. Marital status:

- Single
- Married
- Divorced
- Widowed

4. Number of children:

- 0
- 1-2
- 3-5
- More than 5

4. Monthly income:

- Less than Fr 50,000
- Fr 50,000-100,000
- Fr 100,000-200,000
- Fr 200,000-300,000
- Fr 300,000-500,000

- Fr 500,000-800,000
- More than 800,000

6. Do you have a life insurance policy?

- Yes
- No

If yes:

1) How did you get to know about it?

- Workplace
- A friend
- Advertisement
- The insurance company where I had another policy

2) What is the frequency of your payments?

- Monthly
- Quarterly
- Yearly
- When I get extra income

3) What type of policy do you have?

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4) Are you satisfied by the quality of cover?

- Yes
- No

5) If no what changes would you want to be made?

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If no,

1) Why?

- Never heard about it
- I can't afford it
- I have other ways to prepare for the future
- I don't see the need of it

1) Would you be ready to acquire a life insurance policy that coincides with the future needs of your children or dependents?

- Yes
- No

2) How much would you be willing to pay for it?

- Less than 10,000
- 10,000-20,000
- 20,000-30,000
- 30,000-50,000
- 50,000-100,000
- 100,000 or more

3) Is your income enough to cater for your basic needs (food, house, clothes)?

- Yes
- No

4) Do you save money?

- Yes
- No

5) How much do you save or how much are you willing to save every month?

- Less than 10,000
- 10,000-20,000
- 20,000-30,000
- 30,000-50,000
- 50,000-100,000
- 100,000 or more

6) Why would you save?

- For retirement
- In case an emergency was to occur in the future
- For my children's education
- For my family and for our future needs.

**QUESTIONNAIRE (In french)**

1. Sexe:

- Homme
- Femme

2. Âge:

- 18-27
- 28-37
- 38-47
- 48-57

3. État matrimonial:

- Célibataire
- Marié
- Divorcé
- Veuf

4. Nombre d'enfants:

- 0
- 1-2
- 3-5
- Plus de 5

4. Revenu mensuel:

- Moins de 50 000 francs
- Entre 50 000 et 100 000 francs
- Entre 100 000 et 200 000 francs
- Entre 200 000 et 300 000 francs
- Entre 300 000 et 500 000 francs
- Entre 500 000 et 800 000 francs
- Plus de 800 000 francs

6. Possédez-vous une assurance-vie (Assurance vie groupe exclue)?

- Oui
- Non

Si oui:

1) Comment avez-vous appris à la connaître?

- Lieu de travail
- Un proche ou un ami
- Publicité
- La compagnie d'assurance où j'ai une autre police

2) Quelle est la fréquence de vos primes ?

- Mensuel

- Trimestriel
- Annuel
- Quand j'obtiens un revenu supplémentaire

3) Quelle est votre prime mensuelle ?

- Moins de 10 000 francs
- Entre 10 000 et 20 000 francs
- Entre 20 000 et 30 000 francs
- Entre 30 000 et 50 000 francs
- Entre 50 000 et 100 000 francs
- Plus de 100 000 francs

4) Quel type de police avez-vous?

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5) Êtes-vous satisfait de la qualité de la couverture?

- Oui
- Non

6) Si non, quels changements souhaiteriez-vous faire?

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Si non,

2) Pourquoi?

- Je n'en ai jamais entendu parler
- Je ne peux pas me le permettre financièrement
- J'ai d'autres façons de préparer l'avenir
- Je n'en vois pas le besoin

3) Est-ce que vous avez une autre sorte de sécurité sociale pour vos enfants en cas de votre décès ?

- Oui
- Non

4) Si oui, laquelle ?

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Si non, pensez-vous qu'elle est nécessaire ?

- Oui
- Non

5) Seriez-vous prêts à acquérir une assurance vie qui coïncide avec les besoins futurs de vos enfants ou d'autre personne vivant à votre charge?

- Oui
- Non

6) Combien seriez-vous prêts à payer par mois pour cette assurance ?

- Moins de 10 000 francs
- Entre 10 000 et 20 000 francs
- Entre 20 000 et 30 000 francs

- Entre 30 000 et 50 000 francs
- Entre 50 000 et 100 000 francs
- Plus de 100 000 francs

7) Votre revenu est-il suffisant pour subvenir à vos besoins de base (nourriture, maison, vêtements)?

- Oui
- Non

8) Est-ce que vous économisez de l'argent?

- Oui
- Non

9) Combien épargnez-vous ou combien seriez-vous prêt à épargner chaque mois?

- Moins de 10 000 francs
- Entre 10 000 et 20 000 francs
- Entre 20 000 et 30 000 francs
- Entre 30 000 et 50 000 francs
- Entre 50 000 et 100 000 francs
- Plus de 100 000 francs

10) Pourquoi économisez-vous ou pourquoi seriez-vous prêt à économiser?

- Pour la retraite
- En cas d'imprévus
- Pour l'éducation de mes enfants
- Pour ma famille et pour nos besoins futurs