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Responsible Mobile Insurance

Discussion Paper

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List of abbreviations

A2ii	Access to Insurance Initiative
BMZ	Bundesministerium für wirtschaftliche Entwicklung und Zusammenarbeit
CENFRI	Center for Financial Regulation and Inclusion
CGAP	Consultative Group to Assist the Poor
GPFI	Global Platform for Financial Inclusion
GSM	Global System for Mobile communications
GSMA	GSMA Association[1]
IAIS	International Association of Insurance Supervisors
IFC	International Finance Corporation
IIF	Impact Insurance Facility (previously Microinsurance Innovation Facility)
MMI	Mobile microinsurance
MNO	Mobile network operator
MTN	Mobile Telephone Networks
NGN	Nigerian Naira
POS	Point of Sales
RF	Responsible Finance
RFID	Radio Frequency Identification
TIM	Telecom Italia Mobile (Brazil)
TSP	Technical Service Provider
SMS	Short Message Service
SSA	Sub-Saharan Africa

1 The GSMA represents the interests of mobile operators worldwide. Spanning more than 220 countries, the GSMA unites nearly 800 of the world's mobile operators with 250 companies in the broader mobile ecosystem, including handset and device makers, software companies, equipment providers and Internet companies, as well as organizations in industry sectors such as financial services, healthcare, media, transport and utilities." See www.gsma.com

Rationale of the paper

The German Development Cooperation supports sustainable Economic Development in its partner countries. Insurance market development has become an important approach within BMZ's financial systems development agenda. Insurance is an important risk mitigation tool to prevent families and small enterprises fall back into poverty when a risk event occurs, and sustain other development efforts.

Mobile insurance is taking off rapidly in emerging markets with a range of different product innovations and distribution partnerships. Some supervisors are innovating with a test-and-learn approach responding to the emerging mobile insurance models and their challenges. Industry self-regulation is at an early stage and not dedicated to mobile insurance. A responsible finance approach, entailing the pillars consumer protection regulation, financial institutions' self-regulation and financial capability is required in order to ensure sustainable growth of the dynamically emerging insurance markets.

Summary

Responsible Finance (RF) has recently developed as a coordinated approach aimed at driving responsible practices in financial inclusion based on public and private sector interventions that encourage and assist financial services providers and their clients in improving their understanding and practices to create more transparent, inclusive, and equitable financial markets balanced in favor of all income groups. Responsible Finance brings the focus back to the needs of the end-beneficiary clients by operationalizing practices that promote a more transparent, inclusive, client-centric, and equitable delivery of financial products and services.

With the phenomenal growth of mobile insurance, insurance sold through or with some level of assistance by mobile network operators (MNO), it is important to assess these new initiatives through the lens of responsible finance to determine the risks and potential responsible practices.

Mobile insurance has huge potential due to the high mobile penetration and the growing mobile money industry and is driven by a number of factors and stakeholders. Innovations are found in new distribution partnerships and products.

Mobile insurance is growing rapidly with over 100 identified schemes. However, business models and regulatory responses are still at an early stage. Stakeholders are continuously learning how to manage risk, from a regulatory, business and client perspective.

The German Development Cooperation promotes digital financial inclusion in a responsible way to prevent negative effects on consumer trust in nascent insurance markets.

On behalf of BMZ for the GIZ Sector Project Global Access to Insurance Initiative by Martina Wiedmaier-Pfister and Jeremy Leach with comments from Greta-Maria Roeber, Gaby Ramm and Michael McCord.

Eschborn, Germany, 5th May 2015

The business model of any mobile insurance scheme is determined by two main factors: (1) the product and (2) the distribution partnership. We are seeing considerable investment in the strategic insurance model based on the expansion of loyalty products, with the likely aim of taking advantage of the freemium approach, which means, to convert the loyalty products to paid products. In terms of distribution partnerships, notably, there are the insurer-driven models, the MNO-driven models and the engagement of technical services providers.

There are a number of consumer risks emanating from mobile insurance, which is challenging regulators as they try to keep up with the evolving market. The A2ii Synthesis (Gray et al., 2014) identified 7 concrete consumer protection risks associated to mobile insurance business. Leach (2014) added regulatory backlash (8) and systemic risk (9). The authors have identified an additional risk, the partnership risk (10).

1. Introduction: What is responsible mobile insurance?

Responsible Finance has recently developed as an approach aimed at driving responsible practices in financial inclusion. With the phenomenal growth of mobile insurance, insurance sold through or with some level of assistance by mobile network operators (MNO), it is important to assess these new initiatives through the lens of Responsible Finance to determine the risks and potential responsible practices.

We will therefore assess mobile insurance through the three key pillars of Responsible Finance (see Figure 1): (1) consumer protection regulation, (2) financial institutions' self-regulation, and (3) financial capability.[2]

Mobile insurance relies on the mobile phone ecosystem and infrastructure to support the functions of the insurance process. [4] Simply put, mobile insurance is insurance sold through or with some level of assistance by MNOs. The functions provided by the mobile infrastructure and device can vary.

The **mobile network infrastructure, or, mobile phone-based infrastructure**, is often used for premium payments and sometimes for pay-outs but it can also serve a wider range of functions, such as distribution, administration and client servicing (Leach & Ncube, 2014b).

Figure 1: The Pillars of Responsible Finance

1 **Consumer Protection Regulation**	2 **Financial Institutions' Self-regulation**	3 **Financial Capability**
Supporting industry-wide customer protection regulation around principles of transparency; responsible pricing; fair and respectful treatment of clients; privacy of client data; mechanisms for complaint resolution; and financial education and awareness programs.	Embedding Responsible Finance practices into business functions across strategy and governance, customer acquisition and relationship management, product design and delivery channels, processes and risk management, and financial education.	Building capacity of end clients through broad-based financial awareness, financial literacy and financial education programs at the sector level and through financial institutions.

Source: International Finance Corporation (IFC) website[3]

2 The Responsible Finance Forum (RFF) brings together multiple organizations in a Community of Practice for knowledge exchange and consensus building on responsible finance. www.responsiblefinanceforum.org The last Forum in Perth (August 2014) touched on digital finance including insurance

3 http://www.ifc.org/wps/wcm/connect/Industry_EXT_Content/IFC_External_Corporate_Site/Industries/Financial+Markets/MSME+Finance/Responsible+Finance/

4 A similar definition is used by FinMark Trust in their 2014 case studies on Zimbabwe and Tanzania, defining that "M-insurance is insurance whose sale and/or administration and payment is facilitated by a mobile phone" (Leach & Ncube, 2014a; Leach & Ncube, 2014b). This definition is in line with what we propose. CGAP (2014) defines mobile microinsurance under a wider concept, which includes, apart from the phone or table, other remote operation devices, e.g. Point of Sale Terminals (POS), or Radio Frequency Identification (RFID). According to GSMA, "mobile insurance uses the mobile phone to provide microinsurance services to the underserved (Penicaud & Katakam, 2013)".

Other, technologies can also support mobile insurance e.g. at the front-end (sales point) and at the back-end (administration).[5] Mobile phone based infrastructure can support at least eight distinctive functions in the insurance process.

Table 1 presents the distinct functions, which the mobile phone infrastructure provides in the insurance process. At the same time, we consider the implications from a Responsible Finance perspective. The table supports the argument that leveraging mobile phone infrastructure is

Table 1: Overview of major policy instruments

N°	Function	Responsible Finance Considerations
(1)	Product design as financial (e.g. mobile money) and non-financial (e.g. airtime spend) client data can be used to inform product development that suits the distribution model of the client aggregator[6]	Data integrity and privacy; appropriateness of the product, value of the product, suitability for the channel
(2)	Marketing and sales which can be completed digitally, by an agent or by the sales staff of an aggregator	Sufficient education and understanding; suitability of the media for effective disclosure, limited text in an SMS
(3)	Enrolment which can be automatic such as when an MNO automatically enrolls their subscribers	Client awareness about being insured, understanding the option to purchase a product that is not dependent on main service
(4)	Premium collection can be supported through prepaid airtime, or mobile money	Client permissions and understanding, reliable payments, hacking of accounts, data safety
(5)	Policy acquisition and administration when client data is automatically acquired and updated through the aggregator's database	System integrity and privacy
(6)	Claims processing can be supported by agents, service centers or by self-registration through the mobile device	Integrity of the technology and effective client understanding, and understanding of claims process
(7)	Value added services can be offered in addition to the insurance, such as discounts at retail stores or pharmacies or access to the lottery	Confusion between what is a regulated insurance product and a promotion or value added service
(8)	Data analysis and management of data can be optimized through the business intelligence functions of the aggregator and through the built in GPS capabilities of some of smart and some feature phones	Data integrity and privacy

Source: Adapted from Tellez (2012); Prashad, et al. (2013), and BMZ (2013)

5 For example, at the front end, the RFID technology is being used to support claims processing by tags that identify livestock or biometric data is used for enrolment and for verifying client identity. At the administration level, a call center and automated/straight through processing administration systems can be supported through mobile phone technology.

6 "Client aggregators" are entities such as retailers, service providers like utility companies, or membership-based organizations or civil society organizations, that bring together people for non-insurance purposes and that are then utilized by insurers, with or without the intervention of agents or brokers, to distribute insurance (A2ii – Cross-country Synthesis Paper 1, Gray et al. 2014). www.A2ii.org

a flexible and widely applicable technology although it brings in some additional risks, which need to be understood and mitigated.

Mobile insurance can, in principle, cover a variety of risks, among them loss of assets, damage, illness or death. However, most mobile insurance comes in the form of life insurance cover. There are two main models of mobile insurance.

There is the **strategic mobile insurance model** where MNOs actively drive mobile insurance, typically with the full support of its brand and marketing power. There is **the transactional mobile insurance model**, where the MNO is primarily a passive player, merely offering its infrastructure to switch information or provide a payment facility (see Box 1).

Box 1: Mobile insurance – the strategic model versus the transactional model

In all regions of the world, but with greatest concentration in Sub-Saharan Africa, multinational or national MNOs have been driving **strategic mobile insurance models** where the MNO backs and drives the initiative. In the loyalty-based mobile insurance model, the MNO typically pays premiums on behalf of its customers. The insurer, in turn, is allowed to use MNO data to target and enroll clients. In the strategic model, the MNO provides its considerable brand strength in driving take up of insurance in order to drive direct revenue and / or adjacent benefits such as increasing average revenue per user (ARPU), reducing churn and enhancing their brand. In terms of a responsible finance approach, the potential for consumer protection risks in these models is higher as the insurer typically operates behind the scenes, the clients only want airtime but get insurance in a package.

In the **transactional mobile insurance model**, the MNO plays a passive role where it simply provides mobile operator and/or mobile money infrastructure. In most cases, the MNO typically facilitates access to payment mechanisms such as airtime deduction, mobile money or cash payments amongst others, and provides limited or no additional support or marketing with the aim of driving transactional revenue. The consumer protection risk here is typically seen as less as it is essentially enhancing the traditional insurance approach.

Source: Adapted from Leach & Ncube, 2014b

2. Why is mobile insurance relevant? Who and what is driving it?

Mobile insurance has huge potential due to the high mobile penetration and the growing mobile money industry. Mobile insurance is driven by a number of factors and stakeholders. Innovations are mainly found in new distribution partnerships and products.

MNO infrastructure has a huge potential for supporting insurance penetration because of the high mobile phone penetration in most markets. While it is estimated that in many emerging markets, only 2-15% of the adult population have any form of insurance (various FinScope surveys), 80% to 90% have access to mobile phones. Whilst insurers are seeing significant growth in emerging markets, MNOs are approaching saturation and experiencing a slowing average revenue per user, a key indicator of profitability (Accenture, 2015; Oxford Business Group, 2015).[7] There is therefore a significant opportunity for MNOs to utilize their infrastructure, particularly the mobile phone, to take advantage of this growth.

Mobile phones help to overcome infrastructure challenges in financial services. Mobile technology allows the transmission of information over vast distances, to remote areas that are inaccessible via normal channels such as roads, which makes services feasible in remote areas and enhances convenience for poor clients.

Mobile insurance allows for important cost-reductions. Mobile technology can support efficiency gains in the insurance process - reducing turn-around times and paper load, and make low-value but high-volume transactions more viable. Such cost reductions are making insurance affordable to a much greater client base.

Mobile money has the potential to facilitate the growth of mobile insurance although take off has not happened in many countries. The number of subscribers who are using their mobile phones for mobile money applications is increasing rapidly. In Kenya, the most well known mobile money hotspot, 93% of the population own or can borrow a mobile phone, and 68% (about 30 million Kenyans) are active users of mobile money (Financial Inclusion Insights, 2015). However in India, 85% can access a mobile phone, but there are only 0.2% active mobile money users which is unfortunately the case in many countries. The mobile money environment holds great potential for mobile insurance as it allows one to make insurance payments more flexibly and at lower cost as well as supporting claim payments and distribution. Once it takes off, mobile money outlets can provide significant benefits for the insurance industry.

Insurers are seeking distribution partnerships with client aggregators to access new clients in mass markets (Tellez, 2012). The aggregators, e.g. the MNOs, mobile money platforms, utility companies or retailers, typically have a massive client base and are incentivising insurers to piggyback on their sales structure and brand power. Insurers can design products for client segments within that channel. They can improve distribution, improve back-office efficiency, reduce fraud and finally include new client segments, while having the potential to reduce costs and increase revenues.

Aggregators can play a role in creating new distribution opportunities and products, with the aim of retaining and increasing their customer base, providing value to the customer, and ultimately revenues. They own huge client bases and have a well-established business relationship through regular client contact. In addition, they bring in their agent network and infrastructure to facilitate the mobile insurance processes.

- **The MNOs play an important role as aggregators** and often play a driving role in strategic mobile insurance. Adding insurance to their telephone service allows them to improve customer loyalty, reduce churn (Tellez, 2012) as well as generating new lines of revenue. Their agent network is often much greater than insurance networks. In Ghana for example, around 80% of clients who signed up for the country's mobile insur-

7 Blog Oxford Business Group 2015

ance services have never had an insurance policy before. It is clear from this that the insurer has a potential market in the MNO client base, while the MNO could potentially gain increased loyalty and revenues from distributing the insurer's innovative products.

- **Mobile money platforms, whether offered via an MNO or independently, are another important type of aggregator.** By adding new products and services, they make better use of their investments and generate additional revenues. Mobile money platforms in developing countries and emerging markets are growing rapidly and many are also seeing to add mobile insurance. The trade association of MNOs and related companies, GSMA, reported that the number of mobile money agent outlets grew by 45.8% in 2014, reaching a total of 2.3 million globally in December 2014. In three quarters of the 89 markets where mobile money is available, agent outlets outnumber bank branches, and in 25 markets, mobile money outlets are 10 times more numerous than bank branches. Kenya, for instance, has over 88,000 active mobile money agents (Communications Commission of Kenya, 2013) compared to 4,862 licenced insurance agents and 170 brokers (Insurance Regulatory Authority, 2013) which allows them to reach new segments. GSMA reports the number of mobile money services globally reached 233 at the end of 2013, and 255 at the end of 2014 (Scharwatt et al., 2015). However, the low level of active users remains a challenge in many markets.[8]

- **Retail store companies and utility companies** are aggregators that are also involved in mobile insurance, however, they tend to fit within the transactional type of mobile insurance. PEP, a large retailer in South Africa, is a prominent example, which has actively used SMS' to remind clients to pay their monthly premium in store. PEP started focusing on selling insurance starter packs [9] in-store using a non-advice model, but has now successfully launched low-cost in-store agents, which has driven a 350 % growth in insurance sales. The ease of sale combined with effective mobile communications has been critical to getting PEP to scale (Hollard study, Smith & Smit, 2010, Thom et al., 2014); MNOs need to consider this blend of high touch vs low touch sales models.

Global intermediaries or Technical Service Providers (TSPs)[10] tend to be full service intermediaries that play throughout the value chain although typically working through an aggregator and an underwriter. As their offering is typically more extensive than a traditional broker, some supervisors have not been clear how they should be licensed. In addition, we have recently seen evidence of TSPs selling directly to the market, reinsuring to offshore cell captives or even backing into an insurance license (see also chapter 3, Box 2). The two most active microinsurance brokers or TSPs, MicroEnsure and BIMA, have supported more than 30 product launches in the past few years (Penicaud & Katakam, 2013), rapidly driving the expansion of mobile insurance.[11] By November 2014, it was reported that BIMA had reached 10 million policyholders (within their 3 years of existence) and MicroEnsure 15 million (within their 12 years of operation, of which 8 million were reached in 2014) across a large range of countries.[12]

In summary, the potential for mass distribution is significant but brings new risks as new players enter the market, which challenges existing regulatory principles and practices. There is need for the management of risk across the pillars to ensure that these new models and players are effectively regulated (pillar 1); the aggregators, insurers and TSPs meet high ethical standards of operation to avoid mis-selling and negative market discovery (pillar 2); and that clients understand the cover they receive as well as their rights and responsibilities (pillar 3).

8 Scharwatt et al., 2015 State of the industry
9 An insurance starter pack is an insurance policy packaged similar to a cell phone starter pack. The buyer picks the policy that suits their needs off the shelf. Information is passed on to a call center who contacts the client (Smith & Smith/Cenfri2010: Case Study: Hollard Insurance and PEP).

10 A TSP can have an agent or broker, or microinsurance broker or microinsurance agent license.
11 Other TSPs are Trustco in Namibia and Case Johnson in South Africa.
12 Announced at the International Microinsurance Conference in November 2014 in Mexico

3. Which are the prevailing business models for mobile insurance?

The business model of any mobile insurance scheme is determined by two main factors: (1) the product and (2) the distribution partnership. We are seeing considerable investment in the strategic insurance model based on the expansion of loyalty products, with the likely aim of taking advantage of the freemium approach, which means, to convert the loyalty products to paid products. In terms of distribution partnerships, notably, there are the insurer-driven models, the MNO-driven models and the engagement of technical services providers.

1. Products

Mobile insurance products are usually "typical" microinsurance products. Driven by the need to be suitable for distribution through low-skilled staff or through 'low touch' digital channels, the mobile insurance products tend to be simple, have low premiums and therefore have limited cover, and – hopefully – few exclusions in order to make disclosure simple. Products can be distinguished according to the risk they cover and the mode of payment.

Products cover a moderate range of risks individually or within a bundle, but life dominates: The risks they cover include life, accident (accidental death, disability, hospital cash etc.) and asset insurance (fire, crop, cattle, motor vehicle etc.), but the majority fall under life cover. According to Penicaud & Katakam (2014), over three quarters (76%) of mobile insurance services in the GSMA sample of 84 services offer life cover, while the other 24% provide accident coverage, health insurance (most likely hospital cash plans), or agricultural insurance.

The sample included other products such as an endowment policy or weather-index insurance cover. Furthermore, whereas some products are provided individually, other products are offered in a bundle by including additional riders (e.g. life plus accident cover), another financial product (e.g. savings account) or a non-financial product or service (e.g. funeral assistance). Whilst composite or multi-cover products can be valuable for low-income clients, it does create challenges in terms of financial education.

Life insurance requires simpler sales and claims administration processes relative to other insurance products, making it simpler to enable via mobile phones.

With a view to simplify non-life products, some mobile insurance providers are innovating in the use of data collection to automatically pay out claims via mobile money. For example, Killimo Salama, a microinsurance program for farmers in Kenya, has developed a system whereby the payout is based on weather conditions. The data is collected from specially set-up weather centres, proving that a service, which is automated can be verified using the low-cost technology of a mobile phone. The GPS function of the mobile phone can also be used to identify fields and record the property.

Two main premium payment modes can be identified: (a) "Loyalty" products that have no direct cost to the insured and (b) "paid" products that are paid by the client trough the mobile phone. The (c) freemium approach has been used where a loyalty product is up-graded (upsold) to a paid product.

a. **"Loyalty" ("free"[13]) insurance, which is provided at no direct cost to the client**. In such cases, the premium is paid by the aggregator on behalf of its clients. The aggregator provides the loyalty cover with the aim of achieving certain behaviour in its clients such as increased use of airtime, mobile money transactions or savings in mobile wallets (Leach & Ncube, 2014b). A scan of mobile insurance by CGAP (Tellez & Zetterli, 2014) found that the loyalty products are on the rise with a third of the 71 mobile insurance products "sold" under a loyalty scheme.

13 The term „free" is misleading as the consumer pays for this service indirectly.

Some providers, and even one regulator that one of the authors have interviewed, argue these loyalty products are not insurance but "value-added service" or promotions. This implies that the insurance supervisor is not involved, which creates regulatory risk.

- In Pakistan, MicroEnsure, Jubilee Life Insurance and Telenor Pakistan, launched life insurance cover to Telenor's subscriber base of 30 million. Clients of Telenor Pakistan who spend USD1.86 or more on prepaid airtime can enrol via the phone without a medical examination or paperwork, qualifying for a benefit of between USD186 and USD930.[14]

b. **"Paid" insurance by the client through the mobile phone**. The insurance premium can be deducted from the client's airtime, or he/she can pay directly via mobile money.

- In Brazil, "Seguro Proteção Premiada" is a Generali product. In April 2012, it was launched in partnership with Willis, an insurance broker, and TIM (Telecom Italia Mobile Brazil), a mobile network provider. Prepaid customers of TIM can access accident and casualty insurance and have the chance to win in a sweepstake for a premium of less than USD0.63 a month. The amount is deducted from the client's mobile phone credit (airtime). At year-end 2012, over 11,000 policies were sold (Cisco, 2014).

- In Nigeria, MTN (Mobile Telephone Networks) launched Y'ello Cover in 2013, which reportedly reached 1 million policyholders in a year using an airtime deduction model. The product costs Nigerian Naiga (NGN) 15 (USD0.075[15]) daily or NGN 100 (USD0.5012)/week with a benefit plan of up to NGN 350,000 (USD1,750) to cover medical expenses and permanent disability benefits.[16] This appears to be the most successful paid product globally.

14 Microcapital Monitor December 2013
15 100 Nigerian Naira (NGN) = 0.50 USD (Oanda, 24 March 2015)
16 See for example, http://www.telecompaper.com/news/airtel-mtn-nigeria-sell-100000-insurance-policies-a-month--1006979 and http://mansardinsurance.com/about-us/the-team/155-mtn-y-ello-life-in-collaboration-with-mansard

c. **The "Freemium"** approach, where the client has the option of upgrading from the basic loyalty-based insurance cover to a paid product with more benefits, is also taking off.

- In Ghana, more than 900,000 users of Tigo's life plan "Family care insurance" received coverage as long as they used a minimum amount of airtime. The benefit scheme ranges from USD104 to USD520, for airtime expenditure worth USD2.60 to USD20.80. The policy covers the client and one dependent. By paying an additional USD0.68 a month, users can double their insurance coverage up to USD1,040 as part of a supplemental product that Tigo calls Xtra-Life (Zetterli, 2013). This freemium approach is also called "loyalty-plus" (Prashad, et al., 2013) or hybrid model (Leach & Ncube, 2014b).

Those driving it consider the loyalty product and freemium approach "market makers". However, there are still limited incidences of the freemium model to determine whether it is a sustainable model in terms of migrating loyalty clients to a paid product with strong persistency. There are also questions around the value to clients of these loyalty models; and whether clients truly value them. However, there is indicative evidence that this approach works with CGAP reporting that 55% of Tigo BIMA clients converted to a paid product.[17]

2. Distribution Partnerships

The drive to create innovative distribution partnerships as a core element for mobile insurance is the result of various developments: The availability of new technologies in financial inclusion, shifting customer needs, competitive threats in the insurance sector and in the mobile phone sector, and the existing partnerships around mobile payments is providing impetus to new partnerships. Insurance and non-insurance partners are joining hands to win more customers by going where they are, piggybacking on what these clients usually do, and combining their individual strengths to create a hopefully win-win situation for all partners including clients.

17 See http://www.cgap.org/blog/freemium-spawning-insurance-market-ghana

We found three main types of distribution partnerships in mobile insurance. They can be classified according to which partner drives it.

1. **Insurer driven models** are typically transactional mobile insurance models. The following are examples of how the mass market has been tapped through mobile insurance:

   – Retail networks sell insurance 'starter packs' that are activated via SMS, or at a point of sale.

   – Insurance is directly sold via SMS or through menus on the phone.

   – Agents, such as Microfinance institutions (MFIs), send premium payment reminders via SMS.

   – Insurers collect premiums through mobile money as a 'bill payment', which is typically cheaper than from a bank.

In addition, the mobile infrastructure has been used by insurers to transmit information cost effectively to and from clients, to offer a variety of payment methods from airtime deduction to mobile money, or to support the collection of weather-data for index-based weather insurance or RFID tagging of cattle insurance.

→ **Responsible finance considerations**[18]: As these models are adaptations of existing insurance models they typically fall within existing inclusive insurance frameworks. Consumer protection risks are related to weak understanding, communication challenges or loss of the device.

2. **MNO driven models**. In the past three years, a new generation of mobile insurance products has emerged and is growing fast with MNOs as the dominant partner. MNO driven mobile insurance is a business model where the insurance solution is part of a package provided by the MNO. When compared to insurers, MNOs have the potential to enter the insurance market more effectively than the insurers themselves, due to their strong brand, collection mechanisms and large customer bases, which disrupts traditional insurance markets. Moreover, because of their big databases, MNOs should have an advantage, as they can better understand clients' risks, allowing them to come up with superior pricing and products that are better tailored to clients' needs. Importantly, MNOs are backed by their massive scale and brand power, which means that they will 'own' the client even though, legally, the relationship should be 'owned' by the partnering insurer.

→ **Responsible finance considerations**: As these new models come on line, additional consumer protection risks come to the forefront as the MNOs 'own' the customers, may not full understand the insurance regulatory environment and challenge existing regulation around the use of corporate aggregators.

3. **TSPs driven models**. Increasingly TSPs such as BIMA and MicroEnsure are becoming drivers in their own right as they allow MNOs and other aggregators to enter the market quickly. BIMA is also building its own distribution channels whether through their own salaried agents or establishing microinsurance licenses in countries as they have done in Cambodia. This has attracted significant investments by MNOs, insurers and private equity investors as shown in Box 2.

→ **Responsible finance considerations**: As TSPs reinvent the broker model, it is increasingly found that they are challenging existing rules in countries where they may not be licensed (e.g. Zimbabwe) or where rules do not exist for administrators (e.g. Zimbabwe, Tanzania). Moreover, in most countries they play a greater role than is allowed for in the regulations. Consumer protection risks are related to how they are licensed, effective disclosure of their commission and role in the value chain, with the balance of considerations remaining with the MNO as the face of the insurance product.

18 Note that a more complete discussion of consumer protection risks in a RF perspective is done in chapter 4.

Box 2: Global investments into mobile insurance

Globally, investments are increasing by MNOs, insurers, private equity players and TSPs in the mobile insurance space:

MNOs invest in intermediaries/TSPs:

- **Millicom**, the operator behind Tigo Mobile's investment in BIMA, claims to have reached 10 million clients in just over 3 years (Millicom, 2014).
- **Telenor mobile's** investment in MicroEnsure. Other investors in MicroEnsure include the insurers **Sanlam Emerging Markets and AXA as well as Omidyar and the International Finance Corporation**. MicroEnsure reports that they have now reached 15 million clients with 8 million clients added in 2014 alone, primarily due to its partnership with MNOs including Telenor in Asia and Airtel in Africa (Microensure, n.d.).
- Digicel reports to have invested USD5 million into a joint venture with BIMA for country operations in the Caribbean and Asia-Pacific (BIMA website, Dec 2014).

MNOs invest in insurance licenses:

- **Vodacom** has established life and general insurance licenses in South Africa. They are actively reinsuring their other microinsurance pilots in other countries such as Tanzania and Kenya (Leach, 2013).

TSPs invest in and get active in underwriting or reinsurance:

- **BIMA** has established an offshore cell captive to reinsure their country operations (author interviews).
- **MicroEnsure** has profit share arrangements with Sanlam to benefit from underwriting profit (author interviews).
- **Milvik BIMA** acquired a license as a microinsurance company in Cambodia in 2014 to "target mass market consumers" (BIMA website, 2014).

See also Leach, Ncube & Menon, 2014

4. What are the consumer risks from a responsible finance perspective?

There are a number of consumer risks emanating from mobile insurance, which is challenging regulators as they try to keep up with the evolving market.[19]

In principle, mobile insurance consumers face similar risks that affect the purchasing of any microinsurance product although this is heightened due to the digital nature of the sale. Challenges are mainly related to

- **knowledge**: the consumers may not know they have insurance. They might know but may not inform the beneficiary. They might know they have insurance but may not know where or how to claim;
- **product choice**: the consumers may not be offered or may not choose the right product to adequately cover their risks;
- **processes**: the claims process may be too complicated or cumbersome, and renewal information may not be available, accessible or understandable;
- **risk of losing cover** as the scheme may collapse.

Mobile insurance customers also face additional risks over and beyond the risks mentioned above. Risks emerge because of the business model, the digital finance approach and the particular challenges the client encounters. There are regulatory and supervisory challenges due to the newness of the business model and because several other authorities might be involved. Furthermore, many schemes are still in an innovative stage and hence lessons of what works and what does not work are yet to be learned. Important lessons can be derived from analyzing failures (see Box 3).

Box 3: Examples of failures in mobile insurance

In Tanzania, recently, two loyalty insurance products were cancelled because of low client acceptance, as the product (a funeral product) was not culturally accepted (Leach & Ncube, 2014b).

In Zimbabwe, the cancelation of the Econet - Trustco - First Mutual Life policy had a severe negative impact in the market where the unilateral cancellation of the product led to 20% of the population losing their cover overnight with severe negative market discovery. In a subsequent survey, 62% of those surveyed were not notified about its cancellation, and 63% ruled out use of similar products in future (Leach & Ncube, 2014a).

Major lessons from these schemes are (Leach & Ncube, 2014 & 2014b)

1. **Define the mobile insurance product**
2. **Clarify the policyholder**
3. **Define the nature of the legal relationship and the responsibilities pertaining to all parties involved**
4. **Determine whether premium incidence changes the risk profile**
5. **Assess whether there are appropriate levels of disclosure**
6. **Clarify if consumer recourse options are available**
7. **If you fail, then fail well - creating a living will**

19 The International Association of Insurance Supervisors (IAIS) is also working on this topic. An IAIS Drafting Group, supported by the Microinsurance Network and the A2ii, has been developing a draft Issues Paper “Conduct of Business in Inclusive Insurance”, which is expected to be adopted in 2015.

Consumer protection risks in mobile insurance can be summarized as follows:[20]

1. **Prudential risk** is the risk that the insurer is not able to keep its promises and deliver benefits to the policyholders. Prudential risk derives largely from the features of the insurer's operations and management and therefore a lack of capacity of the insurer. This can be exacerbated by weak regulation and oversight. The potential for scale in mobile insurance could strain small insurer's balance sheet without effective reinsurance particularly with the newer higher risk products coming on line such as SMME cover (Nigeria) and hospital cash plans (various countries) .

2. **Aggregator risk** is the risk of reduced value to client or inappropriate products being sold to clients when an insurer accesses the aggregated client base of a non-insurance third party to sell its products. Factors to be considered are disproportionate bargaining power and the dominant position the aggregator may hold, disproportionate costs due to the distribution structure; and where products are designed to mitigate the risk of the aggregator as opposed to being in the interests of the client. In addition, the legal relationship between insurer, aggregator and client may not be clear and pricing may not be transparent.

3. **Sales risk** is the risk that the sales person is not well trained; their incentives are misaligned, and so they may misinterpret the product to the client, or sell a product that the client does not need, or mis-sells. High turnover of mobile money agents can add to this risk.

4. **Policy awareness risk** is the risk that the insured is not aware that she has insurance cover and is therefore unlikely to lodge a claim, should the risk event occur. The manner in which insurance is sold through certain microinsurance business models can heighten the risk that policyholders are unaware that they have insurance coverage, which could be exacerbated within digital channels.

5. **Payment risk** is the risk that the premium will not reach the insurer, that the premium will not be paid on the due date or that the cost of collecting the premium is disproportionate. Payment risk means that there is a heightened possibility that premiums are not regularly received by the insurer, leading to policy lapses.

6. **Post sales risk** is the risk that clients face unreasonable barriers to maintain their cover, change between products, make enquiries, submit claims, receive benefits or make complaints. It therefore refers to the risk of poor service and the potential disincentive for in-

20 Leach, drawing on the A2ii Synthesis (Gray, et al., 2014), identified 6 concrete consumer protection risks associated to mobile insurance business. Leach (2014) added data risk, regulatory backlash (8) and systemic risk (9). The authors have identified an additional risk, the partnership risk (10).

surers to be efficient in claims processing and service provision.

7. **Data risk** is the risk that the underwriters operational systems do not provide correct, complete and up to date data on how the business is managed; client data is lost or not kept confidential.

8. **Regulatory backlash risk** is the risk that the supervisor impose stringent regulatory requirements that limit the development of mobile insurance. This may come about due to perceptions that these new models are inherently more risky than traditional cover or through a particular incident.

9. **Systemic risk or market wide risk** is the risk of collapse or destabilization of the broader insurance market due to a negative fallout. This may be due to the undermining of trust in the market through a negative experience with a large-scale mobile insurance initiative.

Another risk emerged recently:

10. **Partnership risk**: Because several partners are involved in mobile insurance there is increased risk of a failure due to their different motivations and unaligned interests. Further many of these partners are from the non-insurance sphere and hence do not have an insurance background.

Notably, an important lens is looking at the distinctive digital finance related consumer risks, which can exacerbate the risks to the consumer. Merely going digital can result in risks that go beyond typical insurance related risks.[21] These include:

1. lack of transparency such as limited or no disclosure of terms, or costs which can be compounded by the limits of the digital mechanism e.g. an SMS can only hold 160 characters;

2. fraudulent usage when SIM cards are used by various people; or hacking of phones/accounts;

3. data privacy and protection may be more of a concern in these models;

4. inadequate and unclear consumer recourse for complaints and disputes;

5. digital sales process can result in greater risks of consumer detriment,[22] i.e. a weak product choice when non-insurance sales staff sells the product; or no sales effort is made at all;

6. technology and internet weaknesses, such as low connectivity, or server breakdown;

7. lack of access to physical support infrastructure which may be challenging for low-income clients who may not be comfortable with call centres and staff may not speak the local language; or clients don't have access to smart phones to engage with internet sites;

8. incorrect transactions may be debited from mobile money or airtime balances; concerns around loss of cover if one loses the phone or the phone number is changed.

In considering these risks, we again need to turn to the three pillars to assess the implications.

21 Adapted from "The emergence of Responsible Digital Finance" (Zimmerman, 2014). And from https://www.responsiblefinanceforum.org/wp-content/uploads/140828_CGAP-Presentation.pdf http://www.smartcampaign.org/storage/documents/Tools_and_Resources/EoS_Risk_identification_and_analysis_vSA_AR_LT.pdf

22 Consumer detriment is defined as "consumers purchasing on price without considering the difference in quality of product and post-sale charges; the sale of add-on products; and firms manufacturing products that are of little use to the customers who buy them" (Friel, 2012).

1 Consumer Protection Regulation	2 Financial Institutions' Self-regulation	3 Financial Capability

1 Consumer Protection Regulation

Mobile insurance presents new and potentially severe regulatory and supervisory challenges to the insurance supervisor. They relate to the following questions:

- **Who is in charge?** There could be a regulatory gap because **of the involvement of various regulators**. The different partners all fall under different jurisdictions. MNO's are regulated by communication authorities, those that offer mobile money services are sometimes additionally regulated by (or subject to) the Central Bank, while the administrator may not fall under the mentioned jurisdictions. Moreover, mobile insurance cover is sometimes considered as a value-added-service rather than insurance and hence there might even be a debate about whether insurance regulation will apply.

- **Are market conduct rules applicable, suitable and effective?** Agent regulations may have been written for traditional brokers and agents and so may not be suitable for the new distribution models and non-financial types of agents. The insurance market conduct rules could have negative repercussions as they may add complexity and cost and increase the chance for regulatory arbitrage.

- **Is the capacity and engagement of the regulator adequate?** The insurance regulator tends to be under resourced in many developing countries. They often have limited ability to impose meaningful penalties and have limited access to legal advice. A forward-looking attitude is required, where supervisory staff need to understand the risks of the products and, in particular, the partnership structure. They also need to be actively managing the dialogue with the insurance industry and other industries entering the insurance business; and the collaboration with other regulators.

- **Is the broader legal framework enabling?** For example, electronic contracts may not be allowed. Some jurisdictions require paper-based proof of sales, which significantly increases costs, as there will be a need for "feet on the ground" which minimize the benefit of the mobile phone. Furthermore, the issue of acceptable disclosure is a challenge for both insurers and regulators, as the terms and conditions must be simple enough to ensure that clients understand, yet brief enough to keep to the limited space available for communicating on a mobile phone (Leach & Ncube, 2014b).

1 Consumer Protection Regulation	2 Financial Institutions' Self-regulation	3 Financial Capability

2 Financial institutions self-regulation:

Some challenges could be better dealt with through a self-regulatory framework, rather than through regulation. Joint voluntary standards and industry wide awareness and training could be developed by the industry.

- **How to ensure that insurance is sold responsibly?** Insurance is a lot harder to sell than airtime, ring tones or mobile money as it is typically new to the market, it often has a bad reputation and it is more complex. Therefore, developing simple suitable products for the channel clients will be key along with appropriate agent incentives and training to ensure that products are sold and communicated well.

- **How to structure partnership agreements well while having an exit scenario in place?** Ensuring partnerships are well established is critical; unless the partners are well aligned there can be a lack of effective marketing and communication, unequal incentives can lead to disputes and undermine the sustainability of the partnership. Servicing of clients can also be undermined and ultimately clients can become disengaged undermining the initiative. Should one not end the scheme well, the impact on the market could be significant in terms of undermining trust (Leach & Ncube, 2014 & 2014b).

- **How to avoid closures?** One of the main reasons for failure of Ecolife in Zimbabwe was a partnership failure. The Ecolife product in Zimbabwe reached over a million subscribers in 7 months, accounting for 20% of the adult population, but was closed due to a breakdown in relationships. The cover was between USD30 and USD10,000 depending on the amount and date airtime was purchased. It applied multipliers that increased in 4 steps depending on the monthly amount of airtime paid (Leach & Ncube, 2014a).[23] This meant that the product suffered from serious weaknesses such as clients having difficulties understanding the amount of free life cover. The varying cover was hard to understand for clients that had never had insurance before, or those that had generally low financial literacy.

23 Monthly airtime purchase 1-4USD: a multiplier of 10 is applied; with a minimum cover amount of 30USD; 5-9USD = 20 times; 10USD = 50 times; 11-100USD = triggers 100 times the monthly airtime amount (Leach & Ncube, 2014a).

1	2	3
Consumer Protection Regulation	**Financial Institutions' Self-regulation**	**Financial Capability**

3 Financial Capability:

Financial education challenges are related to the following main questions:

- **How do we create a demand for mobile insurance?** An informed and engaged customer base that will effectively utilize their phones and the mobile insurance product is necessary. This is difficult in markets in which very few people have insurance or positive experiences with insurance. Effective communication and education campaigns will be key, whilst the loyalty models could potentially act as a market maker to create positive market discovery and to allow experimenting around digital marketing, communication and education models. Targeting early adopters such as the youth, who are more likely to accept remote sign up models, could drive take-up even though they are often not the target market of insurers. Piggy backing off strong cultural drivers, such as those around funeral insurance can also drive take-up in some regions. However, they can also result in failures such as in the case of the two products in Tanzania which were cancelled due to low client acceptance. Clients did not want to have free funeral insurance out of fear that this might bring bad luck.

- **How to teach clients about the particularities of mobile insurance?** Mobile insurance education requires significant client awareness and education, safeguards in terms of good product quality and effective supervision. Clients are often new to insurance and have low levels of financial literacy and experience with insurance. As mobile insurance are often supply-led products, the consumer related challenges can be serious. Does the client understand that he/she is insured if a product is provided for free? Does the client understand when and how he/she has to pay for a product that was previously provided for free? The consumer may also have fears around the technology which may prohibit take-up without a high touch (agent based) model. It is possible for consumers to be "opted in and opted out" without being asked which may limit effective understanding.

5. How to protect the mobile insurance consumer responsibly?

The RF approach provides a broad basis to develop innovative means to protect the mobile insurance consumer.

The rapid growth of mobile insurance calls for a responsible finance approach in order to manage the risks whilst supporting take up. Accenture reports that it takes "one year to insure 1mn lives via MNOs vs. 40 years for a typical insurance market".[24] At this level of scale, the impact of a badly run scheme is significant.[25] This is reinforced as the partners in these schemes have seldom worked together before and are new to insurance. Thus, there is increased risk of consumer abuse mis-selling and ultimately of reputational risk causing negative market discovery. In other words, low consumer value or consumer detriment that results from consumer abuses and mis-selling undermines good experiences and erodes trust. Such negative discovery will impact negatively on future take up.

A responsible approach is one where the interests of all stakeholders are upheld. To achieve this, the mutually reinforcing pillars of responsible finance provide an appropriate lens for considering consumer risks and preventive measures for all stakeholders. Therefore, the three pillars of responsible finance will guide our recommendations in terms of the approaches that should be taken.

Pillar 1
Consumer Protection Regulation

- **Collaboration among concerned authorities:** A coordinated and joint approach to regulation and supervision between the telecommunications and/or banking regulator, and the insurance supervisor would allow effective enforcement and oversight of the mobile insurance stakeholders by a joint digital finance regulatory working group. Some countries already have joint working groups considering mobile money but these should be extended to cover other financial services, such as insurance.

- **Define the nature of the legal relationship and responsibilities of the various business partners involved:** The definition of roles enforces accountability of the different parties and sets a basis for joint supervision across jurisdictions.

- **Understand the business models and define the mobile insurance product:** The concerned scheme(s) require(s) supervisory staff to understand the dynamics and pitfalls of these business models. Supervisory capacity building is required.

- **Ensure product quality:** Simplicity is important. Exclusions should be minimal. Minimum standards or limited product approval (preferably, file and use type models) can help avoid low-value products when product scrutiny is expanded including factors that may threaten the viability or acceptance of the product. Requiring insurers to undertake client satisfaction surveys and research such as in a "Treating customers fairly approach" could be supportive and shift the burden from the supervisor to the industry.[26]

- **Monitor differently:** Introducing separate reporting on the mobile insurance business that reaches scale will allow adequate oversight. Separate reporting will enable the supervisor to track any worrying trends rapidly. Tracking claims ratios will identify the value to the client and the sustainability of the business. It is recognized that there are concerns around the reporting burden, which may call for a general overhaul of the

24 Accenture, 2014, Mobile Microinsurance (MMI): goes from experiential to exponential. Presentation by Thomas Meyer at the International Microinsurance Conference (IMC) Mexico

25 Penicaud & Katakam, 2014 reports that 30 new such schemes were launched in the past two years (Penicaud & Katakam, 2014 State of the industry)

26 BIMA notes that they call 25% of their insureds to make sure they understand their product.

reporting systems towards a quality-based reporting although the scale of these schemes may well require separate reporting.

- **Consider business exit:** Due to the size that some of these schemes reach, it may be advisable to require an ex-ante exit strategy as part of licensing the process for mobile insurance models, where the key stakeholders in the value chain either voluntarily agree to ensure alternatives are made available, paid or not, should they "switch" off the cover. Such a condition could also be imposed by the supervisor: Kenya is currently considering this under their planned microinsurance framework.

- **Consider having a technical mobile insurance facility, which supervisors could draw on where required:** Investments are required for supervisory staff training, adjustment of regulations and supervision. Often times, quick reactions are required and hence there might not be much time to seek funding or the appropriate technical skills when required. It may be advantageous to have a panel of technical advisers with commensurate funding that could be drawn upon to support supervisors.[27] This could be part of the A2ii value offering to IAIS members.

- **Supervisory action regarding the "value question":** Mobile insurance gains do not necessarily benefit the end client with many schemes reporting low claims ratios. Mobile insurance significantly reduces the cost of doing business. However, at the same time, low claims ratios and client value issues are common. Whilst it may just be a matter of time as awareness builds, supervisors should have focused and separate reporting on key indicators such as claims to ensure these potentially large-scale models do offer value to the end consumer.

27 Leach calls this 'living will' in adaption of the banking approach after the financial crisis.

Pillar 2
Financial Institutions' Self-regulation

- **Ensure product quality in mobile insurance:** Product value is very important in policies that are mass marketed and rely on digital distribution. Simple and understandable product features are crucial. Industry should strive for integrating digital distribution into their code of conduct. Industry can also jointly agree on product standards and sound market research when developing products.

- **Clarify the issue of client ownership:** The MNOs and other aggregators bring their client base into the business relationship. There is a debate about who owns the clients, and consequently who is in charge of taking care of their interests. The client can easily fall into the gap where "nobody is in charge". This issue needs an in-principle clarification from the regulator where the insurer should ultimately be accountable for the insured persons.

- **Put adequate safeguards into partnership models:** The complexity and newness of the industry suggest that disputes about unforeseen or unintended developments may be common in the course of the partnership. For example, one partner dropping out will threaten the whole scheme. A "living will" or ex-ante exit plan should be in place from the outset to ensure that any scheme winds down in a responsible manner. Various industry associations should develop self-regulation initiatives in terms of code of conducts, or grievance mechanisms organized. Industry initiatives are more complex in mobile insurance because various industries are involved such as banking, payments, insurance and telecommunications sectors.

- **Educate agents and sales staff:** These distribution models often utilize staff of non-insurance partners that are new to insurance, are massive in numbers, and are busy with their other day-to-day jobs. Considerable investment is required into training of staff of the non-financial partners, such as MNO agents, mobile money agents, or staff of retail chains. All stakeholders (MNO, insurer, and intermediary) should play a role in supporting effective awareness by front line staff, either in person, through train the trainer or a full multi-media approach. To avoid the cost being overly burdensome, innovative training and incentivisation methods need to be developed, coupled with proper controls systems to verify effectiveness.

- **Organize regulatory dialogue across partners:** The variety of partners makes regulatory dialogue difficult. On both sides, there are several partners. Asking for, organizing, and supporting dialogue between key stakeholders, competitors (through industry associations that limit potential for conflict of interest) and the various regulators in the aim of building the market is necessary.[28] Industry associations could play an important role here although it is recognised that their capacities are often limited.

Pillar 3
Financial Capability

- **Educate clients on the particularities of mobile insurance:** Managing mobile insurance from a client perspective requires them to understand the salient features of "who offers what" and the respective implications of the form of insurance they have, and also, the way it is distributed. For example, when bundled with airtime spend or savings or another core product of the aggregator, they should understand that the cover may terminate should the main product be terminated, and know the actions to take should they wish to continue cover. When they migrate to a paid product, they should know what they get, how much it costs, and how it will be paid. They should also understand how to claim as well as the available recourse options.

- **Improve digital insurance/finance know-how of existing and potential clients:** Digital finance is often new in many markets and there is a need to ensure that there is effective and appropriate communications to build comfort and confidence in digital financial services.

- **Educate clients on priority risks and claims processes:** Many of the schemes are still showing low claims ratios, an indicator for low client value, which can be an attribute of low client understanding. To maximize consumer value, low-income segments need to be prepared adequately for mobile insurance they sign up for as well as those they become part of, often, without being asked. Claims assistance is important.

- **Take a long-term approach to promoting mobile insurance literacy:** Improving client's abilities requires a long-term approach, e.g. to enable them to make the right choice, including opting out, and to know about their rights, responsibilities and the respective duties in the insurance process. As Hollard Insurance confirmed at a conference in Zambia in 2015[29], the business case for offering financial education in return for lower lapses and less queries is increasingly being proven under certain conditions (e.g. timeliness of effort, sales coupled with product offer).

28 "The regulator can be a great enabler for mobile financial services. The big obstacle is cooperating with the competition - we need to collaborate with competitors." Chidi Okpala, Aritel Money Africa; at the World Bank Digitial Finance Forum April 2014

29 The conference was held in Livingstone in March 2015. http://www.munichre-foundation.org/home/Microinsurance/Learning_Sessions/2015-Zambia.html

6. Conclusions

Mobile insurance is growing rapidly with over 100 identified schemes. However, business models and regulatory responses are still at an early stage. Stakeholders are continuously learning how to manage risk from a regulatory, business and client perspective. The German Development Cooperation promotes digital financial inclusion in a responsible way to prevent negative effects on consumer trust in nascent insurance markets. With this objective, the BMZ supports bilateral and regional projects in the field of digital finance and is part of the Responsible Finance Forum as well as the G20 Global Platform for Financial Inclusion (GPFI).

Insurance supervisors and other bodies in charge of consumer protection have to strike a balance between enabling innovations and protecting consumers. Supervisory capacity needs to be upgraded, to ensure adequate oversight of innovative partnership models and the new product types. Supervisors can apply a 'test and learn' approach around partnership models, product oversight, agent regulations and even reporting. However, there is an urgent need to create real evidence based tools around how to implement test and learn.

Industry, including all kinds of stakeholders from the non-insurance world entering this business, is called to back-up their innovation drive with a high level of caution in terms of distribution partnerships, product and value, striving to create positive experiences for clients for a positive and lasting insurance relationship.

Consumers require the opportunity to understand the new approaches not only in terms of mobile insurance but also in terms of effectively using the digital environment. They need to understand their roles and responsibilities as well as the opportunities and related pitfalls. Strategies for consumer empowerment can benefit from a comprehensive look at the various dimensions of consumer risk, and a joint public private commitment to mitigate those.

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