

The Emerging Global Landscape of Mobile Microinsurance

Since 2012, there has been a rapid increase in the number of mobile microinsurance (MMI)¹ products. The use of relatively low-cost mobile channels in microinsurance offers the potential to reach poorer and more remote clients, which in turn could reshape the microinsurance footprint and contribute to financial inclusion. In addition, many mobile network operators (MNOs) see MMI as another source of customer loyalty and appear to be pursuing a role beyond simply providing the delivery channel, partly with the help of specialized microinsurance business-to-business (B2B) service providers that are rapidly growing into a new niche. This Brief describes CGAP's initial supply-side scan of this emerging trend, which identified 84 products offered through 74 deployments.² It analyzes the different provider models and explores the role played by mobile channels to date, with a view to providing an initial basis for understanding these developments.³

Trends in products, providers, and business models

The number of MMI deployments is growing fast. Our scan documented an increase in the number of new products going to market every year (with the exception of 2009, which was at the height of the global financial crisis), from two in 2006 to 20 in 2012 and 15 in the first eight months of 2013 (see Figure 1). The products offered included life, health, accident, cattle, crop, and travel insurance. The lack of public data on uptake (e.g., number of policies sold) through MMI makes it difficult to compare its customer reach with that of conventionally delivered insurance or microinsurance. Anecdotal evidence gives a mixed picture, with take-up rates varying significantly. However data on policies sold from a few individual cases demonstrate that these products have the ability to scale up very quickly, potentially even eclipsing conventionally delivered products in just a couple of years (Zetterli 2013).

The locus of MMI deployments is shifting from middle-income countries to low-income countries.⁴ While the early MMI deployments were concentrated in South Africa and a few lower-middle-income economies in East Asia, since 2010 two-thirds of all

new products were launched in low-income countries. MMI deployments in such markets are now both more numerous and spread across a broader range of countries than their middle-income counterparts.

In particular, most of the activity is in Sub-Saharan Africa (SSA). Fifty-four percent of the total number of products we found were in this region, compared to 23 percent in South Asia and 20 percent in East Asia and the Pacific. We found only three products in Latin America and none in North Africa, Central Asia, or Eastern Europe. Within SSA, South Africa had some of the earliest MMI efforts, but most never grew to scale. In contrast, our scan documented that the more recent expansion has taken place across more countries (14 in total), is more diverse in terms of models, and appears to have stronger momentum.

MNOs are increasingly driving MMI development, not just providing the delivery channel. Whereas most early MMI experiments were driven by insurers seeking new channels to expand their customer base, the recent wave appears to be largely driven by MNOs seeking to build customer loyalty and reduce churn in increasingly cut-throat voice markets. In total, MNOs now appear to be taking the lead almost as often as insurers, with around a third of deployments led by

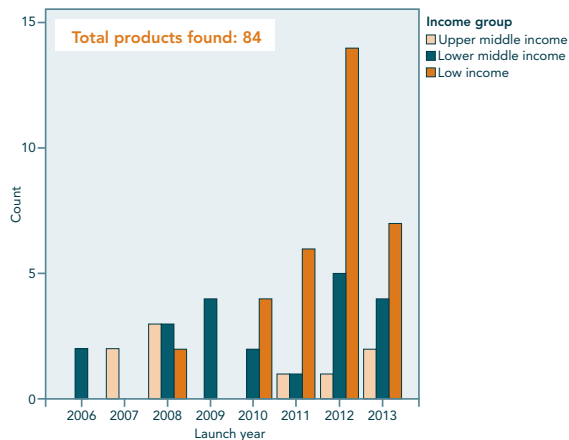
1 We define MMI broadly, to include any microinsurance product that leverages mobile technology—including phones as well as point-of-sale (POS) and radio-frequency identification (RFID) devices—for automation of some part of the process. We exclude call centers, since these have long been used in traditional insurance and do not offer a high degree of automation. The earliest cases identified that match these criteria date back to 2006.

2 As used in this Brief, a "deployment" is a separate mobile offering of one or more microinsurance "products" by a single set of partners in a given country. The dataset from our scan includes 74 deployments with a total of 84 different products offered.

3 This scan is based primarily on a desk review of publicly available information, coupled with interviews and correspondence with 18 deployments.

4 Defined by the World Bank as those with a 2012 per capita gross national income of \$1,035 or less.

Figure 1. Geographical distribution over time



MNOs and insurers, respectively, and the remainder driven by banks, third parties, governments, donors, or consortia. As MNOs assume a more active role in branding, marketing, and shaping these products as well as the front-end relationship with customers, it is clear that they are becoming more than simply a channel.

Specialized microinsurance B2B service providers are playing an increasing role, with at least a dozen products being facilitated by companies like MicroEnsure and Bima that offer both MNOs and insurers services in MMI product development, distribution, and administration. Bridging the often substantial gap between MNOs and insurers, these companies are carving out a niche as highly specialized service providers with an understanding of both the insurance industry (which MNOs lack) and the low-income customers that make up the target market (which insurers lack).

What do MMI products look like?

The mobile phone is by far the dominant technology, being used by 71 out of the 84 products in our dataset; we found only nine card-based products and three using RFID technology.⁵ Of course, the advantage of phones is that the technological infrastructure in the form of base stations and handsets is typically already in place, whereas card and RFID solutions often require investments in POS devices as well as smart cards or RFID tags before the product can be deployed.

A third of the products are offered free of charge—albeit sometimes conditional on customer activity—and this share is rising. There seems to be significant momentum behind such models, with a dozen

products launched since early 2012. Several hybrid “freemium” products (with a “free” basic offering that can be upgraded to provide additional cover for a small premium) could offer a model for opening new markets while building longer-term commercial viability. In all, we found 25 “free” and three “freemium” MMI products out of the 84 total. It is worth noting that virtually all of these are promoted by MNOs, which are able to build a business case for them around revenue streams from the core business, whereas we found only a single “free” product offered by an insurer.

Most products are tied to a specific MNO, with only 22 percent offered across multiple mobile networks. This is no accident—MNOs generally offer an MMI product primarily as a means of building loyalty with users of their core business. One in five comes bundled with another product, whether another insurance product (e.g., life plus accident coverage), another financial service (e.g., a savings account), or a nonfinancial product or service (e.g., a post-paid voice subscription). Unsurprisingly, this is substantially more common among “free” products than ones for which separately identified premiums are paid.

The insurance offered tends to be the simplest possible. Three out of four products identified in our MMI scan offer basic life insurance, while most of the remainder provide some form of accident coverage (death, disability, or hospitalization). Just over half are flat propositions, with no options or choice of coverage level. This may be a natural starting point from the supply-side perspective, as simpler products are cheaper to administer and easier for sales agents (who may have limited knowledge of insurance themselves) to explain, particularly to poor and often illiterate clients with no prior exposure to insurance. It is no doubt especially appealing to the large majority of MNOs, which don’t typically have any in-house insurance expertise. It remains to be seen to what extent these supply-driven products meet customers’ needs and whether a wider range of more complex products will be on offer over time.

How is the mobile channel being used?

For 72 percent of these products, a mobile device is used to process registrations in some form other than

⁵ RFID is a technology for wireless transfer of data from tags that need no power source of their own. They are often used in logistics, identification documents, and contactless payment cards.

a call center, though over a fifth of those still require hard-copy paperwork, photos, or IDs to complete the registration. As a result, it is possible to register for just over half of all the products observed in a fully mobile process without the need for physical documentation. Of these, one in four products with fully mobile registration still requires customers to see an agent—e.g., to buy a scratch card with a code that the customer sends by SMS to register the policy. The rest let customers fully register remotely on their own device. Typically this is for simple life products where the customer has already fulfilled some know your customer requirements when registering the SIM or a mobile wallet.

The most common use of the mobile channel is to support premium collection. Every paid product for which we have this information sends automatic reminders to customers when a premium is about to come due, and 84 percent also collect the premium itself via mobile payment. Among the 39 paid products in our research that collect premiums over the mobile channel, 22 do so via mobile money, 15 deduct airtime, and two use mobile-initiated card payments.

Unsurprisingly, mobile is also very often used for sending customers basic policy information, with 89 percent sending automated information by SMS, e.g., after sign up, and many allowing users to initiate queries through a mobile interface. However, only a small number of products can be altered, updated, or cancelled over the mobile channel.

The mobile channel is leveraged substantially less in claims processing. Only a third of MMI products for which we have data enable customers to even register claims over a mobile. Only half of those (17 percent of all products) use a fully mobile claims process, and these tend to be index crop insurance, RFID-based livestock insurance, and card-based health insurance schemes. With mobile money schemes becoming more widespread across Africa and elsewhere, there will be increasing opportunities for providers to address this—and fewer excuses not to.

Emerging business models

Our analysis of the MMI deployments studied yielded five emerging business models:

1. **Insurers pursuing new segments,** notably in lower-income groups, through new products developed specifically for the mass market. They are often sold as “starter packs” through retail networks and activated via SMS or POS, with limited use of the mobile channel beyond that. Others are remotely purchased via SMS, with the premium charged to airtime.
2. **Insurers mainly pursuing efficiencies** through technology, notably mobile payments but also RFID tagging for cattle insurance. Typically they seek to reduce cost and create value for existing customers rather than to acquire new ones, and more rarely does this involve development of the product offering per se.
3. **MNOs seeking passive loyalty** by offering insurance, generally free of any direct charge to customers, to all voice users who remain customers (perhaps on a specific plan). These products were common in East and South Asia from 2006 onward but have tended to be temporary promotions and few remain.
4. **MNOs seeking active loyalty** by also providing insurance coverage free of any direct charge, but only to customers who meet minimum targets, such as airtime use or mobile money transactions. The goal is not just to develop loyalty but also to provide incentives for specific behaviors that drive other revenue for the provider. These products are a recent and fast-growing development: we found 15 such products, of which all but one launched since 2010 and almost half since mid-2012.
5. **MNOs seeking loyalty and direct revenue** by offering paid insurance products as a value-added service to voice customers. About half of these products bill via mobile money and the other half via airtime deduction. Each of the products identified in this class was launched since 2012.

Future prospects on the supply side

Based on this initial supply-side scan, there seems to be substantial momentum behind mobile delivery of microinsurance globally. Barring spectacular failures, expansion in the number of deployments seems likely to continue while the products and business models evolve. In that process, we see a few factors that may shape developments.

“Free” pricing models might provide an initial step to more inclusive insurance markets in poor countries, which otherwise tend to have extremely low levels of insurance penetration, particularly at lower levels of household income. Some providers anticipate that the experience with “free” plans will foster an appreciation for insurance among the previously uninsured that will result in a willingness to pay for higher coverage or more options. This assumption is at the core of the “freemium” business model, which is seen by providers as a way to create insurance markets in segments where none previously existed. To the extent that this assumption holds, MMI might contribute noticeably to more inclusive insurance markets.

Much of the current growth in the number of MMI deployments is “horizontal,” with a few very similar models being rolled out by a rapidly increasing number of players in a range of countries. This offers a first indication of the business potential that these companies see. Competitive pressures over time may motivate providers to enhance customer value through more “vertical” growth in the differentiation of offerings beyond the current one-size-fits-all models, by making products more varied, flexible, and tailored to different customer segments.

MNOs seem poised for increasing dominance in the MMI space, at least in some markets, and in the process they may come to play a major role in insurance market expansion among poor customers. Some will even acquire an insurance company or license for themselves, as we are already seeing.⁶

Mobile delivery of insurance generally may eclipse conventional approaches in terms of customer numbers, particularly at the base of the pyramid. For example, in 2013, Tigo Family Care in Ghana provided insurance coverage for over a million clients, doubling the size of the insurance market in the country since its launch in 2010. Where this occurs, it is also possible that insurers who were once happy to let MNOs lead in helping them expand into low-income segments will perceive more downside risks in forfeiting the customer relationships in this massive new market (and potentially even losing ground with their traditional customer base as well).

The emergence of specialized B2B intermediaries like BIMA and MicroEnsure may accelerate the expansion of MMI. They are rapidly accumulating a highly specialized mix of skills that none of the traditional actors involved typically possesses, including on MMI product

design, customer relations, financial education, and training of MNO agents to explain insurance. Through the development of tailor-made software platforms, this comparative advantage is being deepened into a one-stop solution for mobile microinsurance that should prove compelling to MNOs and insurers alike.

What lies ahead for MMI?

From our initial data scan, a promising picture of the supply-side MMI landscape emerges, with increasing numbers of new deployments in a broadening range of countries—and growing numbers of examples where insurance is being added to the financial product offerings available to poor households. What lies ahead for MMI? Much will depend on demand-side factors—particularly whether the products offered suit these households’ needs—as well as on the policy and regulatory environment. To address these questions, there needs to be a deeper understanding of the implications for customers, MNOs, and traditional providers of these evolving business models and potentially the development and enforcement of new rules across the insurance market to balance the interests of providers with those of new customer segments characterized by low literacy and lack of experience with insurance.

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⁶ For instance, Vodacom in South Africa has acquired both life and nonlife insurance licenses. Meanwhile Telenor has established a joint venture with MicroEnsure to deploy across Asia and Eastern Europe and Millicom (Tigo) is one of BIMA’s shareholders.

AUTHORS:

Camilo Tellez and Peter Zetterli