

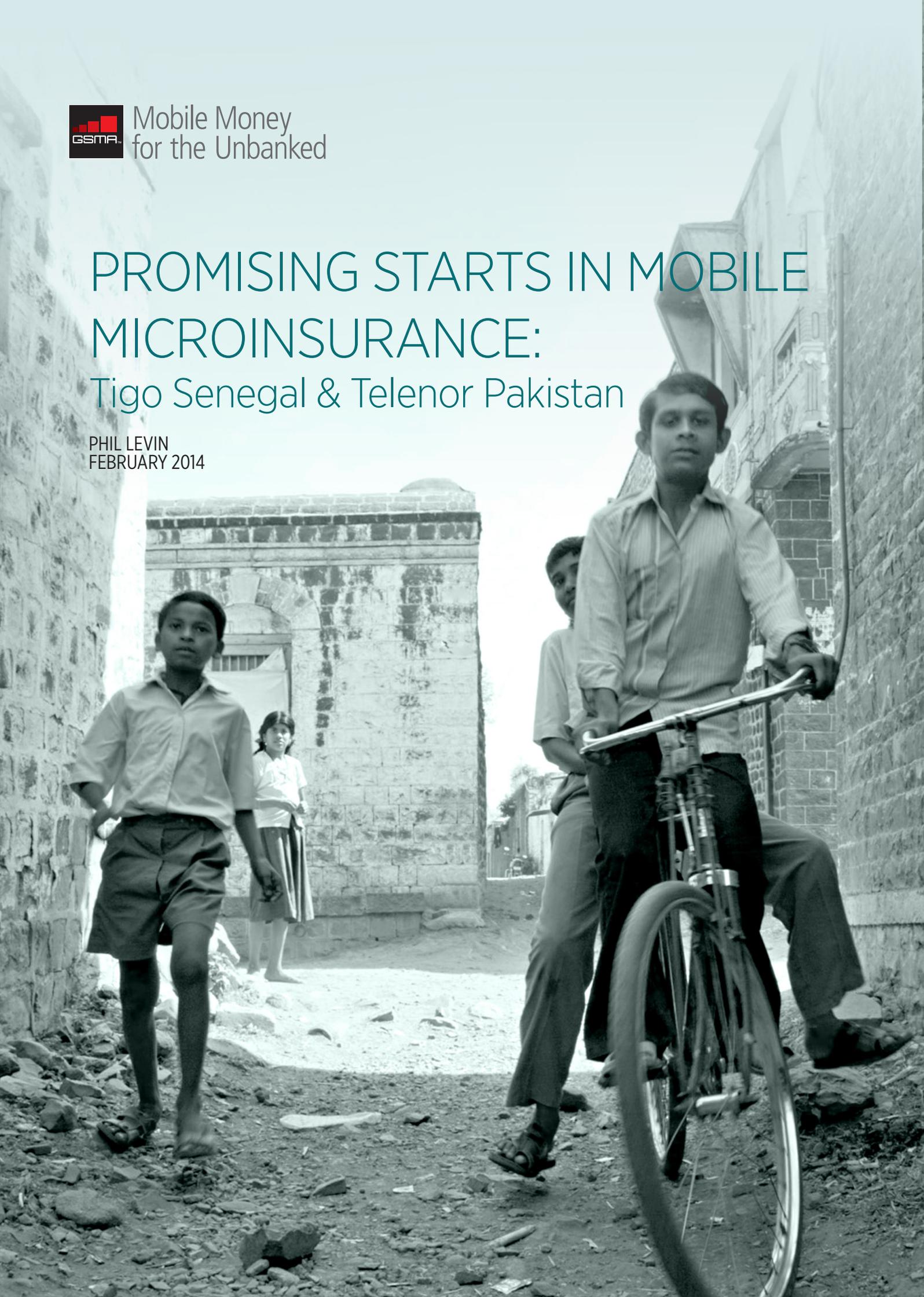


Mobile Money
for the Unbanked

PROMISING STARTS IN MOBILE MICROINSURANCE:

Tigo Senegal & Telenor Pakistan

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Executive summary

The global microinsurance market is estimated at 4 billion individuals,¹ but the cost of selling and administering low-value policies makes microinsurance uneconomical for many traditional providers. Mobile phones have the potential to radically reduce the costs associated with enrolling and collecting payments from low-income customers who have previously been excluded from the insurance market. Ancillary benefits to non-traditional providers can also bolster the business case for microinsurance. For example, mobile network operators (MNOs) can benefit from improved brand perception, higher ARPU, and churn reduction when they couple microinsurance to their core telecom offering.

Mobile microinsurance is still a young and experimental industry. Over half of all mobile microinsurance offerings have been launched in the past three years² and they employ a range of business models. However, one model is driving significant customer uptake: an MNO-led “freemium” model that gives loyal telecom subscribers a certain amount of insurance cover for free, and charges those who want to upgrade to a premium offering.

The two services profiled in this case study employ a freemium model and, encouragingly, seem to be gaining early traction. Senegal's Tigo Kiiray, in partnership with microinsurance specialist Bima, has registered 13% of Tigo's GSM base and collects paid premiums from over a third of registered Kiiray users in a typical month. Telenor Pakistan, in partnership with microinsurance specialist MicroEnsure, offers separate insurance products to drive both core GSM activity and mobile money account enrolment. Telenor Pakistan activated close to 400,000 insurance policies in the first 2 months of operation.

The services offered by these MNOs share a number of features:

- **Radically simple product design** with minimal exclusions, rapid claims verification, and a streamlined enrolment process
- **Dedicated sales forces**, either at outbound call centres or roving agents, who place a strong emphasis on customer education and sales quality
- **Partnerships with mobile microinsurance specialists** that contribute expertise and accelerate go-to-market activities
- **Automated and non-punitive deduction of premiums** through a mobile airtime account
- **Leveraging a trusted MNO brand** to reach a mass market unfamiliar with or distrustful of insurance

With mobile microinsurance still in its infancy, it is unclear whether the loyalty-based freemium model will ultimately be able to achieve commercial sustainability and scale across geographies. However, early evidence suggests a confluence of customer demand and a workable initial business model.

1. Swiss Re Sigma, “Microinsurance – Risk Protection for 4 Billion People.” Available at http://media.swissre.com/documents/sigma6_2010_en.pdf.

2. CGAP, “The Emerging Global Landscape of Mobile Microinsurance.” Available at <http://www.cgap.org/sites/default/files/Brief-The-Emerging-Global-Landscape-of-Mobile-Microinsurance-Jan-2014.pdf>.

Microinsurance in context

“Low-income persons live in risky environments, vulnerable to numerous perils, including illness, accidental death and disability, loss of property due to theft or fire, agricultural losses, and disasters of both the natural and man-made varieties. The poor are more vulnerable to many of these risks than the rest of the population, and they are the least able to cope when a crisis does occur.”³
International Labour Organisation

Why microinsurance?

In theory, insurance should be a good fit for low-income individuals, who are disproportionately affected by financial shocks and lack a financial safety net to cope with crises.

Insurance exists to mitigate the effect of these financial shocks, but traditional providers have struggled to provide insurance to low-income and unbanked consumers. According to the Microinsurance Innovation Facility, “The cost of underwriting, selling and administering claims does not decrease in proportion to the value of the policy. Insurers find it challenging to provide viable products for the low-income market using traditional channels and processes.”⁴ This has left an opening in the market for mobile-based offerings, which may be able to offer low-value policies to a greater number of individuals due to lower distribution and administrative costs.

The untapped potential of microinsurance

One way to view the untapped potential of insurance is to examine the aggregate premiums paid in a particular country as a percentage of GDP. In 2012, industrialised nations spent 8.6% of GDP on insurance, while emerging markets spent only 2.7 percent.⁵ This gap may be due, at least in part, to the difficulty of reaching low income populations in emerging markets with microinsurance products.

Recognising the potential of mobile microinsurance, a number of providers have launched services in recent years. The Consultative Group to Assist the Poor (CGAP) identified 74 operators with live services, with the majority launched in the last three years. These services encompass a range of different business models and products.⁷ The 2013 GSMA Mobile Money Adoption survey revealed that life insurance accounts for about three-quarters of all mobile microinsurance offerings. Roughly half of the surveyed business models rely on loyalty for the commercial model, while the other half relies on direct premium revenues.

3. International Labour Organization, “Protecting the Poor: A Microinsurance Compendium.” Available at <http://www.ilo.org/global/publications/lang-en/index.htm>

4. Microinsurance Innovation Facility, “Mobile Phones and Microinsurance.” Available at <http://www.microinsurancefacility.org/publications/mp26>

5. Swiss Re Sigma, “World insurance in 2012.” Available at http://media.swissre.com/documents/sigma3_2013_en.pdf

6. Swiss Re Sigma, “World insurance in 2012.” Available at http://media.swissre.com/documents/sigma3_2013_en.pdf

7. See “The Emerging Global Landscape of Mobile Microinsurance” from the Consultative Group to Assist the Poor (CGAP) for more information and review of mobile microinsurance business models

INSURANCE PREMIUMS AS A PERCENTAGE OF GDP (2012)

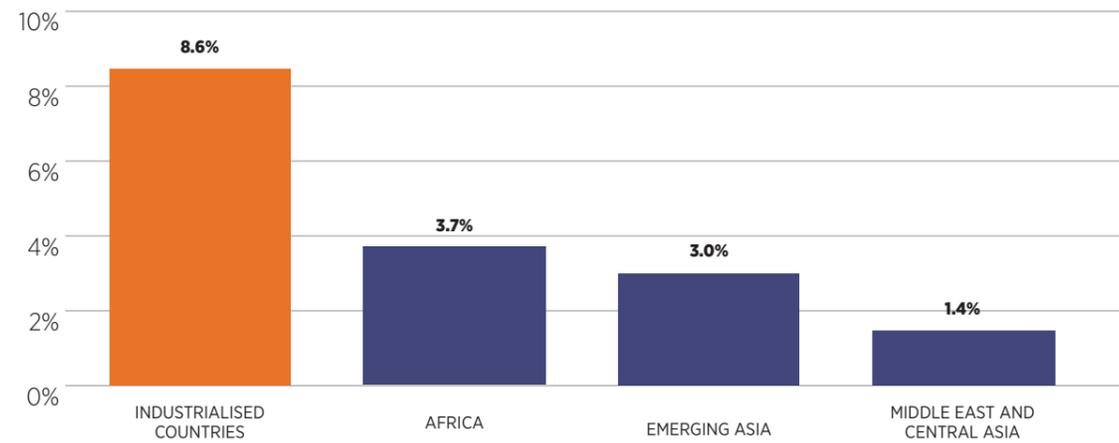


Figure 1: Global insurance penetration⁵

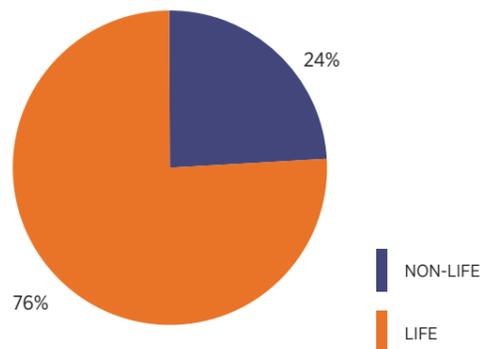
Promising new players: Tigo Senegal & Telenor Pakistan

This case study examines the early performance of two young mobile microinsurance initiatives.

Part 1 features Tigo Kiiray, a life insurance product of Tigo, an MNO in Senegal that launched in April 2012 in partnership with mobile microinsurance specialist Bima. This section will focus on the operational model and product design that allowed Kiiray to reach 13% of Tigo's 3 million GSM subscriber base⁸.

Part 2 focuses on the strategic motivations for MNO-led mobile microinsurance, examining how Telenor Pakistan is using insurance to drive customer behaviour across both its core GSM and mobile money business. Its GSM product, Talkshawk Mohafiz, is being offered through a global joint venture with mobile microinsurance specialist MicroEnsure, and has gained significant traction in its first 2 months of operation by registering almost 400,000 subscribers.

TYPE OF INSURANCE OFFERED



COMMERCIAL MODEL

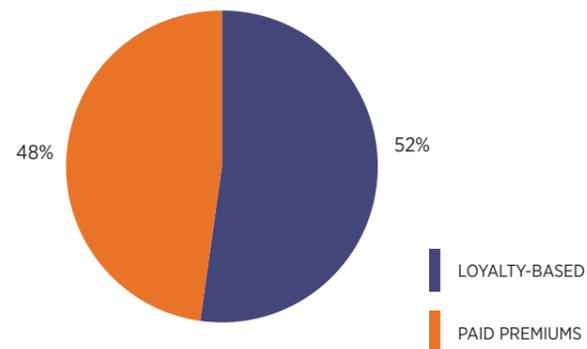


Figure 2: Existing mobile microinsurance initiatives



PART 1

INSURANCE MADE FOR THE MASS MARKET: TIGO & BIMA IN SENEGAL

Senegal's insurance market is underdeveloped relative to the rest of the world and even within Africa. The total amount of insurance premiums collected in the market (gross written premium) represents just 1.89% of Senegal's GDP, well below the African average of 3.57%.⁹

Six life insurance companies operate in Senegal today. While microinsurance is offered in the market, none of the services have reached scale and the companies focus primarily on the wealthier and easier-to-reach banked segment of the population.¹⁰ Insurers such as UASen, Tigo's current underwriter for Kiiray, have explored microinsurance offerings that would appeal to a broad segment of the population, but were dissuaded by the unfavourable unit economics of offering small policies to the unbanked.



Designing a microinsurance product for the mobile channel

Tigo, Bima, and UASen believe that the mobile channel completely changes the economic and product design constraints of a typical life insurance product. With Kiiray, they set out to design an insurance product unlike any other in the market.

The golden rule: Keep it simple

Most insurance products in Senegal have relied on automated deductions from bank accounts, which is a reliable collections mechanism, but one that does not work for Tigo Senegal's largely unbanked GSM subscriber base. Tigo's subscribers also tend to be new to insurance and are not necessarily familiar with the intricacies of a typical product: beneficiaries, exclusions, lapse rules, and document-heavy enrolment and claims processes.

To design an insurance product with broad appeal, the Kiiray team had to ask what could be stripped away from a typical life insurance policy. Simplicity became the golden rule; all Tigo customers received the same coverage and pricing regardless of age or risk profile. UASen required the minimum possible documentation to process claims and enrol subscribers. Premium collection would be small, gradual, and non-punitive if a customer missed a payment.

FEATURE	TYPICAL LIFE INSURANCE PRODUCT	TIGO KIIRAY
Enrolment process	<ul style="list-style-type: none"> Long process for paperwork and eligibility verification 	<ul style="list-style-type: none"> Instant registration by agent on mobile handset with no paperwork Electronic signature on customer phone through USSD
Premium collection	<ul style="list-style-type: none"> Payment deducted from bank account monthly The policy lapses upon repeated failure to collect 	<ul style="list-style-type: none"> Collection over airtime account in small daily instalments (US\$0.03) Ability to "catch up" on missed payments
Product complexity	<ul style="list-style-type: none"> Complex set of exclusions and terms and conditions 	<ul style="list-style-type: none"> Very limited exclusions Terms and conditions sent over SMS in plain language
Pricing	<ul style="list-style-type: none"> Differential based on individual risk (age, medical exam, etc.) 	<ul style="list-style-type: none"> Flat pricing and benefits for all customers
Claims payment	<ul style="list-style-type: none"> Process takes up to 15 days and requires extensive documentation 	<ul style="list-style-type: none"> Claims processed in 48 hours on presentation of death certificate

Figure 3: Stripping away a typical life insurance product

9. Swiss Re Sigma, "World Insurance in 2009." Available at http://media.cgd.swissre.com/documents/pr_sigma2_2010_en.pdf.

10. Interview with Senegalese Insurance Expert

Establishing a foundation with a “freemium” model

An important element of Kiiray’s product design is a “freemium” approach. Customers who spend a minimum amount on Tigo’s GSM network are given a modest level of free life insurance cover, but can opt into a paid version with additional cover. Eligibility for free cover requires spending at least 1,500 CFA francs (US\$3.13) in a given month on Tigo’s network, which provides CFA 60,000–300,000 (\$125–\$630) in life insurance cover. If the customer stops using Tigo’s GSM services, they lose Kiiray coverage. For the premium paid version, CFA 330 (\$0.69) is automatically deducted from the customer’s airtime account in small increments over the course of a month in exchange for twice as much life insurance cover. Tigo and Bima have recently begun enrolling subscribers in the premium paid version by default, though these subscribers can still earn free cover if they choose not to pay their premiums in a given month.



SALES AGENT EXPLAINS THE KIIRAY PRODUCT TO A TIGO SUBSCRIBER

Dedicated agents, high-quality engagement

An old industry adage states that insurance is sold, not bought. Very few people wake up in the morning and say, “I need to buy insurance today,” but many do wake up realising they need to draw a loan or pay a bill. The task of convincing a customer that today is the day to buy insurance generally falls to a sales agent. In countries where insurance penetration is low and customers are unfamiliar with the benefits of insurance, a high degree of customer education must accompany the sale. The sales process, therefore, is about more than selling; it is equally an insurance tutorial.

Tigo’s operational partner, Bima, specialises in the go-to-market aspects of insurance rollout, and took three steps aimed at building the capacity and skills of its sales force.

Step 1: Build a roving sales force

Bima manages a sales force of roving agents, “mobile agents”, who educate and register Tigo Kiiray subscribers. Bima’s sales model is unique in a few respects:

1. **Mobile agents are paid a fixed salary, rather than a commission.** Bima believes this compensation scheme has three main benefits. First, a fixed salary offers greater financial security and increases personal investment in the job, allowing agents to take their customer education role seriously and spend as much time with the customer as necessary. Second, it reduces the risk of agents mis-selling or pressure-selling the product, which helps to protect Tigo’s brand in the market and builds public trust in insurance products. Third, fixed compensation reduces turnover and allows Bima to invest more in training.
2. **Bima invests heavily in training.** Every new mobile agent goes through a three-hour training session and a one-week apprenticeship with a team leader. Follow-up training sessions are routine; one recent weekend workshop included a session by the Tigo Customer Care manager on handling customer queries and an insurance primer from underwriter UASen.

“We want [the mobile agents] to feel they are part of the company, rather than doing a contract job. Building a company culture and extensive training are both important parts of our sales agent model.”

Gustaf Agartson, CEO, Bima

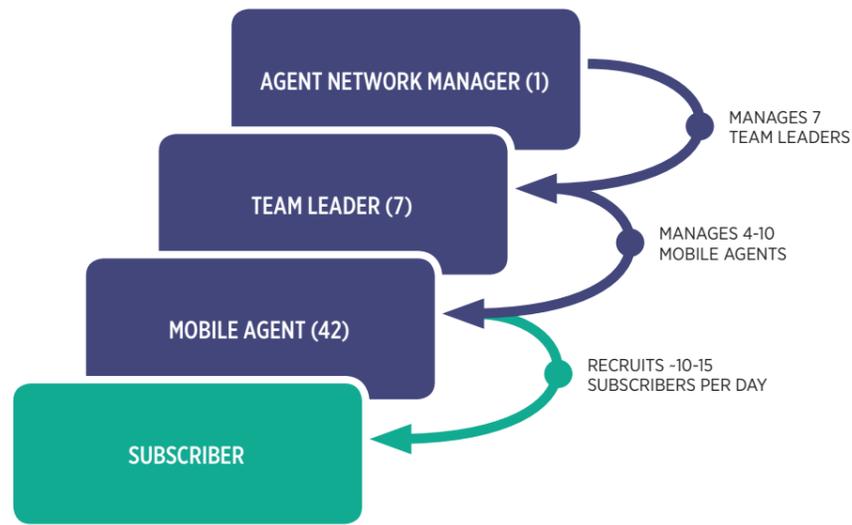


Figure 4: Bima's distribution model in Senegal

Is a dedicated sales force really necessary? Bima CEO Gustaf Agartson thinks it is essential. He recalls Bima's experience in another market that relied on all-purpose staff in the MNO's service centre to sell products and enrol subscribers. Mr. Agartson estimates that these representatives were only about 5% as productive as Bima's dedicated, well-trained sales agents.

Step 2: Target high-potential subscribers through an outbound call centre

Bima manages an outbound call centre, which serves as a secondary sales channel for Kiiray products. The call centre focuses on high-potential insurance customers: existing Tigo subscribers who have already shown loyalty to the GSM network. Tigo provides Bima with calling lists for the outbound campaign.

The call centre has proven to be a productive sales channel and accounts for 55%–60% of total registrations. Customers registered through the call centre have also generated higher lifetime value than those registered through other channels; not surprising, since they are Tigo's high-ARPU subscribers.

Step 3: Continuously monitor sales quality

"This model hinges on the quality of sales."
Paddy Partridge, Country Manager, Bima Senegal

The Bima model stresses the importance of sales quality, not just quantity. Sales quality is critical for a few reasons. First, customers who do not fully understand the product are unlikely to upgrade to the paid version of the service and, if they do, are more likely to let the subscription lapse. Second, since Kiiray carries Tigo's brand, an unpleasant interaction with a Bima agent can damage Tigo's reputation. Third, Tigo and Bima are using these sales interactions to educate the general public about the benefits of insurance. A population well-versed in insurance is an investment that Tigo and Bima hope will yield future dividends as they return to these same customers to sell future insurance products.

How does Bima ensure sales quality? Dedicated quality control staff follow up with new subscribers to check the work of each sales agent. On a rotating basis, staff call 20 recent subscribers enrolled by a particular agent. Two staff members quiz 120 customers per day, which, over the course of a month, generates a representative sample of Tigo's sales agents. Each customer is quizzed about the Kiiray product to ensure the product was explained properly, including: 1) the price of the product, 2) how to make a claim, 3) how deductions are made, 4) whether the beneficiary has been informed, and 5) the time period of the insurance cover. The sales agent is then graded on a scale from 1–3. An agent that receives too many scores of "2" is retrained, followed by a probation period. If the scores do not improve, the agent is dismissed.

The results so far

As of October 2013, just 1.5 years after launch, Tigo Kiiray has registered 13% of its nearly 3 million subscriber GSM base. Over half the Kiiray subscribers qualify for insurance cover in any given month by spending the minimum required amount on Tigo's network. Remarkably, about twice as many of these qualifying subscribers opted for the paid premium cover as took the free offering.

What benefits have Tigo seen in its first year? Tigo's Commercial Director Jose Escobar says that Kiiray has brought better than expected direct revenue and strengthened the brand. The product is fitting nicely with Tigo's brand strategy, which aims for customers to experience the "Digital Lifestyle" that Tigo offers with a range of services that they can conveniently access through their mobile phone. Though only a fraction of Tigo's core telecom business, Kiiray revenue is comparable to other VAS services, such as ringtones and entertainment.

Bolstered by the success of Kiiray, Tigo Senegal plans to expand its insurance offering in the near future with a paid health insurance product, leveraging Kiiray's customer base as a starting point.

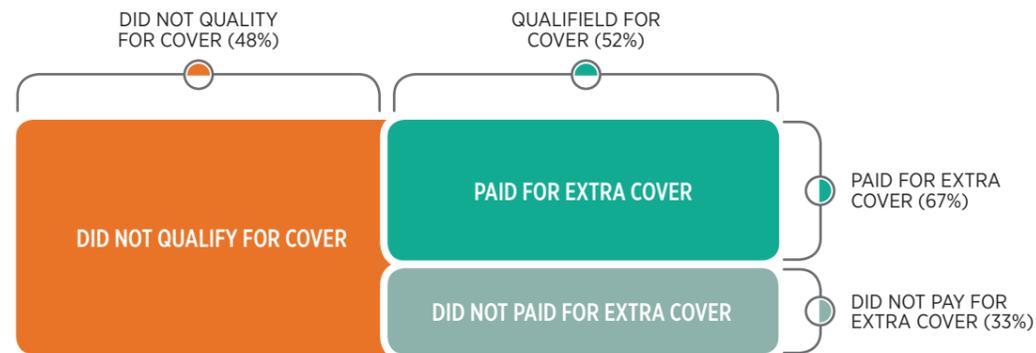


Figure 5: Tigo Kiiray subscriber base, October 2013

PART 2 INSURANCE AS A TELECOM STRATEGY: TELENOR & MICROENSURE

“Insurance was the missing element as far as financial inclusion is concerned.”
Ali Sattar - Vice President Financial Services, Telenor Group

The Telenor Group, a multinational telecommunications company with operations in 12 European and Asian countries, is strongly committed to financial services in its emerging market operations, believing that “mobile financial services will become the new normal.”¹¹

Through its mobile money services, Telenor has provided payment, savings, and remittance services in a few of its emerging market operations. However, the Group also sees insurance as an important part of its efforts to advance financial inclusion.

Given Telenor’s desire to drive financial inclusion and to take a strategic position in the insurance value chain, Telenor decided to invest in a microinsurance specialist, MicroEnsure. Last year, Telenor and MicroEnsure set up a joint venture, MicroEnsure Asia, to roll out insurance offerings to Telenor’s customer base in Asia. The joint venture is independently governed, with board representation from both Telenor and MicroEnsure.

The joint venture launched its first microinsurance service with Grameenphone in Bangladesh and then turned to the under-penetrated Pakistani market. Insurance premiums in Pakistan account for only 0.7% of GDP, far below the Asian average of 5.95 percent.¹²

Telenor Pakistan: Finding a home for microinsurance

Telenor is the second-largest mobile operator in Pakistan and shares the group-level commitment to financial services. In deciding where to house its microinsurance program, Telenor Pakistan weighed two options. Its Easypaisa mobile money service is one of the 2012 GSMA Mobile Money “Sprinters”¹³ with over 6 million monthly users, but its GSM base was even larger at 32 million subscribers. Would it include insurance in its suite of financial service offerings through Easypaisa? Or would it be better to address the entire GSM base?

Telenor did both, for different reasons. Last year, Telenor launched Khushaal, a savings and microinsurance scheme attached to Easypaisa.¹⁴ The vast majority of Easypaisa’s 6 million active monthly users access the service “over the counter,” transacting through an agent rather than through a mobile wallet of their own. Telenor wanted Easypaisa to drive adoption of the mobile wallet so that it could offer a broader range of financial services, and saw the microinsurance offering as a possible “carrot” to convert over-the-counter users to wallet users. For Easypaisa, the benefit of Khushaal is as a mobile wallet recruitment tool.

By design, however, Khushaal can only attract a fraction of Telenor’s GSM base. Not all of Telenor’s GSM subscribers use Easypaisa and only a fraction of those customers have an Easypaisa mobile wallet. Telenor believed there was room for two insurance products in Pakistan. In November 2013, Telenor and MicroEnsure launched Talkshawk Mohafiz, another free life insurance product linked to a subscriber’s overall spend on Telenor’s network.¹⁵ Subscribers spending 200 rupees (US\$1.90) per month on Telenor’s network — an amount roughly equal to the average Telenor ARPU — receive at least 20,000 rupees (US\$190) in free life insurance cover. Telenor hopes that the product will create stickiness in a fiercely competitive telecom market with six mobile operators.

Do these two insurance channels conflict? Roar Bjærum, Head of Easypaisa, believes they are complementary. Khushaal is about acquiring Easypaisa mobile wallet users, whereas Talkshawk Mohafiz targets churn reduction and ARPU increases within the GSM base. The scale of the products is also completely different. Cover for the GSM product kicks in with a 200 rupee (US\$1.90) monthly spend, but Khushaal requires 10 times that — a 2,000 rupee (US\$19) average monthly balance in the mobile wallet. The insurance cover is correspondingly about 10 times greater for Easypaisa Khushaal compared to Talkshawk Mohafiz. Talkshawk Mohafiz is for a typical Telenor subscriber, while Khushaal provides special rewards to active mobile wallet customers.

11. <http://www.telenor.com/innovation/financial-services/>

12. <http://tribune.com.pk/story/536915/industry-to-create-awareness-on-benefits-of-insurance-cover/>

13. The fastest growing mobile money services in the world as revealed by the 2012 GSMA Mobile Money Adoption Survey.

14. Those interested in learning more about Telenor’s Easypaisa mobile money service in Pakistan and the hybrid over-the-counter and mobile wallet model should read MMU’s 2013 case study, “Easypaisa: Mobile Money Innovation in Pakistan” by Yasmina McCarty.

15. Specific product details for Talkshawk Mohafiz can be found at <http://www.telenor.com.pk/talkshawk-utility/talkshawk-mohafiz>. Details for Khushaal can be found at <http://www.easypaisa.com.pk/index.php/en/services/khushaalbeema>.

COMPONENT	EASYPAlSA KHUSHAAAL – INSURANCE LINKED TO MOBILE MONEY BALANCES	TALKSHAWK MOHAFIZ – INSURANCE LINKED TO GSM SPEND
Minimum requirements for cover	2,000 rupee (US\$19) average monthly balance in Khushaal account	200 rupee (US\$1.90) monthly spend on Telenor network
Minimum cover	100,000 rupees (US\$950)	20,000 rupees (US\$190)
Maximum cover	1 million rupees (US\$9,500) and 5,000 rupees (US\$47) per month for 5 years	100,000 rupees (US\$950)
Primary sales channel	Outbound call centre	Outbound call centre, self-enrolment, service centre locations
Current addressable base	400,000 mobile wallet users	32 million GSM subscribers
Goal of service	Recruit mobile wallet users	Reduce churn and increase ARPU in GSM base

Figure 6: Comparison of Telenor Pakistan’s two insurance offerings¹⁶

16. Minimum and maximum cover for accidental death. Cover amounts are lower for natural death.

An evolving product strategy: Free to freemium (and beyond)

“Customers will be willing to pay, but only after they see how the product works.”
 Irfan Khan, Chief Marketing Officer, Telenor Pakistan

Why launch with an entirely free product? Telenor and MicroEnsure are laying the groundwork for an insurance market that did not previously exist. Richard Leftley, CEO of MicroEnsure, believes that launching with a paid product would only target the estimated 2% of the population that already buys and understands insurance. By providing a free product with extremely low barriers to entry (nothing more than a USSD command), they are growing a base of potential insurance customers. Mr. Leftley terms this approach “priming the pump”.

Telenor and MicroEnsure plan to eventually migrate from a free to freemium model in which customers can pay for add-ons to their policy. Increased cover, adding family members, and other products such as health, property and mobile phone insurance, are all possibilities. Once Talkshawk Mohafiz has signed up a sufficient number of subscribers, the next task will be to convert them to paid offerings.

Telenor and MicroEnsure believe that any introductory free product must offer simplicity and complete lack of hassle to appeal to a potentially sceptical subscriber base. Once customers are educated on the benefits of insurance, Telenor and MicroEnsure will be able to introduce more complex offerings with higher barriers to entry.

Promising early results

Leveraging its built-in customer base of 32 million, Talkshawk Mohafiz (the GSM product) raced to almost 400,000 subscribers in its first two months of operation. Telenor has managed to acquire subscribers through a few different channels, including an outbound call centre, its larger retailers, and surprisingly, self-enrolment. Customers have responded to television advertising and SMS blasts by enrolling themselves through a simple USSD menu. Irfan Khan, CMO of Telenor Pakistan, says the results have exceeded his expectations. Next, they will focus on rolling out the product to more retailers and expanding product functionality.



Conclusion: Lessons and questions for the mobile industry

Lessons for new mobile microinsurance operators

What advice might a pioneer in mobile microinsurance offer a new market player? This is what some of them are saying:

“TOP EXECUTIVES NEED TO BELIEVE IN THE PRODUCT TO MAKE IT WORK”

JOSE ESCOBAR
COMMERCIAL DIRECTOR, TIGO SENEGAL

“PARTNER WITH SOMEONE WHO HAS DONE IT BEFORE”

ROAR BJÆRUM
HEAD OF EASYPISA, TELNOR PAKISTAN

“BUYING INSURANCE SHOULD BE AS EASY AS BUYING A RINGTONE”

RICHARD LEFTLEY
CEO, MICROENSURE

“PRODUCT SIMPLICITY AND WELL-TRAINED AGENTS ARE THE KEY”

PADDY PARTRIDGE
COUNTRY MANAGER, BIMA SENEGAL

Organisations considering a mobile microinsurance venture could draw the following lessons from the experiences of Tigo Senegal and Telenor Pakistan:

1. **Start with a radically simple product.** Applying product design from the formal financial sector might not work for new insurance customers unfamiliar with typical product features. Simplicity may be more important than flexibility or functionality.
2. **Insurance does not sell itself.** Bima devotes the vast majority of its investment in Senegal to a dedicated sales force of roving and call centre insurance agents. Each insurance policy is sold through a one-on-one interaction with the customer, with the sales agent taking care to explain the benefits to customers who are unfamiliar with and sometimes sceptical about insurance.
3. **Sales quality is paramount.** An insurance policy is a long-term relationship between a customer and provider rather than a one-time transaction. The quality of the initial sale determines the future value of the relationship.
4. **Expert partners can speed success.** Both Tigo and Telenor have opted for an alliance of equals with their operating partners, Bima and MicroEnsure. The partners have imported proven models from other markets and operational know-how to get services off the ground quickly.
5. **Direct revenues take time.** Tigo and Telenor have both decided to offer free insurance linked to telecom network loyalty. Today's margins may be thin and the benefits indirect, but they are banking on stimulating future demand for paid add-ons and other products.

Broader lessons for the mobile financial services industry?

Of course, not every mobile operator will launch a mobile microinsurance program. However, they might be interested in whether the early lessons from microinsurance extend to other financial products. Might a savings product benefit from a similar ground-level sales effort and relentless focus on sales quality? Can expert partners accelerate success in areas that might be unfamiliar to MNOs such as eCommerce? Will product simplicity trump flexibility when it comes to credit provided over the mobile channel?

Is the loyalty-based model sustainable?

Scenarios for mobile microinsurance

One major unanswered question facing the young mobile microinsurance industry is whether the loyalty model, where insurance cover is tied to telecom usage, will be financially sustainable in the long-term. Both Bima and MicroEnsure believe there is demonstrable near-term ARPU and churn benefits to offering some level of free cover. MicroEnsure estimates that MNOs typically pay less than 3% of ARPU in underwriting costs to the insurance partner for enrolled customers and generate at least a 10% increase in ARPU and churn reduction (these numbers vary by market, however). Bima has conducted customer surveys that show insurance to be a greater driver of MNO loyalty than comparable VAS products.

One scenario for the mobile microinsurance industry is that these loyalty benefits prove to persist indefinitely. In this case, MNO-led mobile microinsurance programs may be able to justify themselves on that basis alone. But what happens if the loyalty benefit actually erodes over time? Two microinsurance practitioners provide another prognosis for mobile microinsurance: An evolution from a loyalty-based to pure revenue-based model.

Richard Leftley, CEO of MicroEnsure, has seen the near-term MNO loyalty benefit provided by mobile microinsurance. However, he does not believe that the economics of pure loyalty-based programs can be sustained long term. He reasons that, as customers become more familiar with insurance and competitive offerings enter the market, loyalty benefits will gradually diminish. A microinsurance program must evolve alongside these market changes and ultimately justify itself through direct revenue contribution.

Gustaf Agartson, CEO of Bima, believes that while loyalty products like that used in Senegal should still be economically sustainable, delivering positive margins to all parties, the end goal will be a robust paid offering. Like Mr. Leftley, he predicts a gradual migration away from policies that tie cover to MNO loyalty and toward a suite of self-sustaining paid products.

Will operators be able to generate enough direct revenue from these newly-acquired insurance customers to justify these programs? With these pioneering services only in the first few years of operation, it is probably too early to say. Mobile financial services practitioners will want to keep a close eye on these stories.



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