Emerging Practices in Mobile Microinsurance

Camilo Téllez
Introduction

Microinsurance is insurance for people with low incomes, giving poor people the ability to manage risks in their lives.1 It is not, however, widely available. Why is insurance easily accessible to those in the developed world, but not the poor—whose demand for insurance, given how close they live to the economic brink, is arguably greater? The answer is simple: transaction costs. The cost of selling and underwriting insurance and of administering a claim does not decrease in proportion to the value of the policy. Using traditional channels and processes, insurance companies simply cannot write policies with values below a certain floor without pricing them unrealistically. Moreover, microinsurance is a low-cost, high-volume business; therefore, scale is crucial.

The mobile platform, including mobile money, can be used as a tool to reduce the costs of microinsurance and to help it to scale. The objective of this paper is to outline the opportunities for leveraging the mobile channel, including mobile money, to deliver microinsurance, and to share examples of attempts to do so from around the world. We hope that readers from both the mobile industry and the insurance industry will find in these pages new ideas for collaboration that will make risk-management tools available to those who most need them.

What is Microinsurance?

Microinsurance aims to cover lives and protect the assets of low-income individuals and families from natural disasters, illness, death, accidents and crop failure amongst others. By doing so, it enables low-income individuals to manage their risks better by providing them with a safety net that can stop them from falling back into poverty. It often refers to the subset of insurance products that are characterised by low premiums and low coverage limits, on the assumption that these suit the needs of low-income people.

At the time of writing, figures released by Lloyds and the Microinsurance Centre estimate that there are over 135 million people worldwide who are covered by microinsurance. The total market size is vastly larger, amounting to 1.5 to 3 billion policies.4

The role of intermediaries

Besides MNOs and insurance companies themselves, there are a number of niche players emerging as specialists in bridging the gap between insurance companies and mobile network operators. Companies like MicroEnsure, Trustco, and Bima have been instrumental in building some of the innovative propositions described in this note.
What are MNO Assets that can be Leveraged to Provide Microinsurance?

Assets controlled by MNOs can help insurers reach customers in low-premium environments. MNOs have large physical and virtual networks with the potential to reach significant numbers of clients, including the unbanked, at low cost.

Figure 2 below summarises the ways that insurers can leverage the MNOs’ communication channels, retail distribution networks, and payment mechanisms; in this section, we discuss each of these assets in turn.

Communication channels

MNOs control a range of communication channels that can support the promotion and sales of and enrolment in insurance policies. They can also allow insurers to handle routine customer enquiries and account management. Finally, they can be used to streamline claims handling, which is one of the most important parts of the value chain to client.6

Voice is the most obvious of these channels, and it is widely used by insurers today to communicate with clients. SMS is more complex to implement—typically requiring integration with an SMS aggregator—but it can be an extremely cost-effective channel for, for example, reminding customers when premium payments are due, because sending such reminders can be entirely automated. The USSD (Unstructured Supplementary Service Data) protocol allows for secure, interactive sessions that can be suitable for policy enrolment and administration, and it is accessible on even very low-end handsets. However, insurers must typically negotiate directly with mobile operators in order to gain access to this channel.

In 2011, MTN Ghana, Hollard Insurance, MicroEnsure, and MFS Africa launched an microinsurance product called “mi-Life,” which is available on MTN’s MobileMoney platform. As the name suggests, “mi-Life” provides users with the opportunity to buy life insurance via their mobile phones via the USSD channel. The same interface used to purchase the insurance can then be used to change its attributes, tailoring the insurance package to suit the consumer’s needs. Through their handsets, users are able to initiate claims, queries and make premium payments. Premium payments are deducted from their m-wallets on a monthly basis, and customers are notified via SMS. Once the premium is paid, the insurance cover lasts one month, until the next monthly premium is deducted.

The partnership between MTN and other parties reduces the costs of insurance by lowering transaction costs and by leveraging their extensive distribution network; a larger number of customers are reached. mi-Life policies in Ghana are underwritten by Golden Life Insurance, since customers are often familiar with insurance, in addition to serving as a channel for notifications, claims handling, and even disbursement.

Retail sales and distribution

Insurance providers can leverage the existing distribution network of airline dealers and/or mobile money agents as a low-cost sales channel. These agents can help explain a product to customers who might not be familiar with insurance, in addition to serving as a channel for notifications, claims handling, and even disbursement.

Using existing airline dealers and/or mobile money agents network may build trust in insurance, since customers are often familiar with these retailers already. However, caution is required. In order for customers to understand exactly what they are buying, the sales channel needs to be appropriately trained. MNOs have learned the hard way that the agent training for the provision of a mobile money service can be a challenge. Finding the right incentives is also complex. If agents are overcompensated for selling policies, they may resort to unsavoury tactics to do so; if their compensation is insufficient, on the other hand, they probably won’t bother investing the time it takes to educate customers about the product.

In some countries, there are rules which specify who is allowed to sell insurance. This can restrict the ability of insurers and MNOs to exploit third-party retailers as a sales channel.

Payment mechanisms

Collecting premiums is a major challenge for the microinsurance industry. Customers in the target market often have irregular and unpredictable cash flows and poor access to traditional payment mechanisms. Exploiting new channels for premium collection can result in higher renewal rates, particularly when used to extend flexibility for poor customers with irregular incomes.

The mobile infrastructure offers four ways to collect premiums from customers—and, in some cases, to disburse payouts, too.

Kilimo Salama ("Safe Agriculture") is a weather-index microinsurance product designed to protect farmers from the risk of drought and excess rain. It was launched in partnership between UAP Insurance, the Syngenta Foundation for Sustainable Agriculture (SFSA), and Safaricom. Kilimo Salama policies are sold by independent stockists of agricultural inputs across Kenya. These stockists use a scanner attached to a smartphone that allows instant, paperless registration. Stockists collect premiums and transfer these through M-PESA to the insurance company. Automated weather stations then monitor rainfall: if the weather stations’ measurement shows that there is a payout due, these are sent automatically to farmers via M-PESA.

This type of insurance is also being adapted for natural disasters, such as typhoons affecting coastal communities using a wind speed index, where an insured’s location is recorded via GPS and pay-out is triggered depending on the recorded wind speed and distance from the storm.

**Over-the-counter agent payments**

Just as insurers can leverage airline dealers and mobile money agents as a sales channel, they can also be tasked with collecting premium payments from customers.

**Pre- and post-paid mobile accounts**

In a number of countries, MNOs and insurers have made it possible for customers to pay for their policies using their existing pre- or post-paid mobile account. The advantage of this payment mechanism is that it is available to every customer with a mobile phone.

In the context of the base of the pyramid, this payment mechanism may still need to be combined with a physical sales channel, since customers with no previous experience with insurance will most likely benefit from more personalised sales attention.

**No fee (i.e., loyalty based)**

Finally, insurers may opt not to collect premiums from customers at all, turning instead to MNOs to cover the cost of insurance on behalf of their customers.

Loyalty programmes are structured marketing efforts that reward, and therefore encourage, buying behaviour—behaviour that is valuable enough to the MNO to justify subsidising the cover. In countries where customers tend to have more than one SIM card, loyalty programmes can be designed to reduce churn. Alternatively, when qualifying for insurance is tied to certain levels of expenditure (e.g., top-ups), these schemes can actually cause customers to spend more, having a positive effect in ARPU.

These types of models tend to renew every calendar month, as long as the customer fulfils the aforementioned requirements. When they don’t, the insurance benefit is forgone. A key success factor for such programmes is that customers become aware of the potential benefits of the insurance cover they are receiving.

**Transaction data**

One of the major challenges faced by insurance practitioners when designing and pricing new products is the lack of historical data. The real-time rendering of insurance and mobile-transaction information (airtime or mobile money usage patterns, geo-tagging, etc.) can dramatically improve this process and give insurers access to reliable data to find patterns necessary for better understanding their customers, ultimately allowing them to design more appropriate products for them.

Collecting and analysing mobile-transaction histories is also relevant for the marketing of insurance, given its potential to help identify customers who have low risk profiles or a need for a particular insurance product. Record keeping can be improved, thereby eliminating redundant processes and reducing fraud. And for claims settlement, the readily available data reduces the amount of documentation necessary, making the process more efficient.

**Brand**

Brand recognition and trust are important in any industry. Trust in the insurance provider is particularly essential because a prospective customer will not purchase a policy unless he is sure that, in the case of a legitimate claim, a payout will be made. (This is one of the reasons that microinsurance has diffused more slowly among low-income consumers than microcredit.) Under the right conditions, MNOs can lend their substantial brand power to give credibility to the claims of an insurance provider. For example, in a recent survey in Ghana, 70% of respondents said they would rather purchase insurance from an MNO than from an insurer—presumably because of the low visibility of insurance providers among the low-income segment.11
The Global Landscape of Microinsurance Products

This sample of microinsurance schemes is not exhaustive, but it provides a picture of the range of approaches that are being tested around the world. As a general note, many of these products are still in pilot stage, and, at present, they tend to focus on the simplest kinds of insurance, such as life and accident.

<table>
<thead>
<tr>
<th>Country</th>
<th>MNO</th>
<th>Insurer</th>
<th>Partners</th>
<th>Name</th>
<th>Product description</th>
<th>Mobile use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>Banglalink</td>
<td>Jiban Bima</td>
<td></td>
<td></td>
<td>Life insurance product</td>
<td>Premium collection via mobile</td>
</tr>
<tr>
<td>Ghana</td>
<td>MTN</td>
<td>Golden Life</td>
<td>MF5 Africa, Hollard Insurance, MicroEnsure</td>
<td>mi-Life</td>
<td>Life insurance product available to MTN MobileMoney subscribers</td>
<td>Initiation of claims, queries, and premium payments through MTN MobileMoney platform</td>
</tr>
<tr>
<td>Ghana</td>
<td>Tigo</td>
<td>Vanguard Life</td>
<td>Bima, MicroEnsure</td>
<td>Family care insurance</td>
<td>Life insurance product for Tigo prepaid customers having a minimum usage, covering themselves and a registered family member</td>
<td>Registration via SMS and airtime-based premium payment</td>
</tr>
<tr>
<td>Honduras</td>
<td>Tigo</td>
<td>Seguros Fichosa</td>
<td></td>
<td>Seguro Medico via Celular</td>
<td>Accident insurance covering for medical expenses</td>
<td>Registration via SMS and airtime-based premium payment</td>
</tr>
<tr>
<td>India</td>
<td>Airtel</td>
<td>Reliance Life Insurance Company Ltd</td>
<td>mChek</td>
<td>Free Group Term Life Cover</td>
<td>Life cover valid for a period of 6 months from the date of subscription</td>
<td>Cover based on the usage over the past 6 months. Registration via SMS</td>
</tr>
<tr>
<td>India</td>
<td>IDEA Cellular</td>
<td>Birla Sun Life Insurance</td>
<td>Group term insurance cover</td>
<td>Life insurance product offering one-year coverage to 18 to 35 year old people</td>
<td>Registration via mobile phone after downloading a particular dialer tone and providing personal details (age, etc.) over SMS</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>BSNL</td>
<td>MS General Insurance Company Ltd</td>
<td>BNSL Personal Accidental Insurance Scheme</td>
<td>Loyalty-based accidental insurance worth Rs 50,000 (US$844)</td>
<td>Free insurance for all subscribers of postpaid mobile services. SMS Registration</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>Bharti Airtel</td>
<td>Bharti Axa Life (Bharti stakes sold to Reliance in June 2011)</td>
<td>BEAM</td>
<td>General and life insurance</td>
<td>Premium collection and payments via mobile</td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>Telkomsel</td>
<td>Takaful Safari Insurance, Jiwakarya Staka Insurance</td>
<td></td>
<td>Accident insurance worth up to Rp 100m (US$11.200) available during the Idul Fitri holiday season</td>
<td>Policies can be bought through T-Cash</td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>Telkomsel</td>
<td>Commonwealth Life</td>
<td>Advanced Comm Care</td>
<td>Accident insurance available to T-Cash customers</td>
<td>Registration via SMS and T-Cash</td>
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<td>Kenya</td>
<td>Safaricom</td>
<td>UAP Insurance</td>
<td>Syngenta Foundation for Sustainable Agriculture</td>
<td>Kilimo Salama</td>
<td>Weather index insurance product designed to insure maize and wheat farmers against drought and excess rain</td>
<td>Premium collection and disbursement through M-PESA, Mobile scans for product</td>
</tr>
<tr>
<td>Kenya</td>
<td>Safaricom</td>
<td>Britak</td>
<td></td>
<td></td>
<td>Personal accident insurance product</td>
<td>Enrollment and premium payment through M-KESHOD</td>
</tr>
<tr>
<td>Kenya</td>
<td>All MNOs offering mobile money services in Kenya</td>
<td></td>
<td></td>
<td></td>
<td>12-year endowment product providing a savings element with a life and disability cover. The client is encouraged to save money; he receives savings interest and an immediate life insurance cover</td>
<td>Premium collection through mobile money platforms (M-PESA, Airtel Money, Yu-Cash...) and weekly SMS reminders for premium collection</td>
</tr>
<tr>
<td>Kenya</td>
<td>Safaricom</td>
<td>MicroEnsure, FrontlineSMS: Credit ChildFund</td>
<td>Akiba Sure</td>
<td>Combined life insurance and savings product to benefit children in the event that a guardian passes away. The two-year term product is based on savings contribution levels ranging from 10-60 KES/day (US$0.10-0.60), with a savings payout at the end of the life of the policy in the event a claim has not been made</td>
<td>Uses FrontlineSMS: Credit’s PaymentView software to monitor incoming M-PESA payments via SMS, track customer progress towards savings requirements and prompt targeted SMS messages and reminders</td>
<td></td>
</tr>
<tr>
<td>Kenya</td>
<td>Safaricom</td>
<td>GA Insurance Ltd</td>
<td>Changamuka, Microhealth Ltd</td>
<td>Changamuka</td>
<td>Flexible savings and health m-insurance product designed to support families save towards the cost of childbirth</td>
<td>Top-up smart cards via M-PESA</td>
</tr>
<tr>
<td>Kenya</td>
<td></td>
<td>Kenya Oriental Insurance Ltd</td>
<td>Safari Bima</td>
<td>Personal accident cover</td>
<td>Subscription with a scratch card via SMS</td>
<td></td>
</tr>
<tr>
<td>Namibia (also Zimbabwe)</td>
<td>Econet</td>
<td>First Mutual Life</td>
<td>Trustco</td>
<td>EcoLife</td>
<td>Life insurance for prepaid customers of Econet having a minimum usage</td>
<td>Registration via SMS</td>
</tr>
<tr>
<td>Pakistan</td>
<td>ZONG</td>
<td>Adamjee Life</td>
<td>ZONG Insurance</td>
<td></td>
<td>Accidental death or disability insurance caused by an accident or terrorism</td>
<td>Subscription to one of three different plans via SMS, Daily deductions of Rs 2-5 (US$0.02-$0.05) for annual cover of US$113.0-$339.0</td>
</tr>
</tbody>
</table>
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Further Reading

Protecting the Poor: A Microinsurance Compendium, edited by Craig Churchill
Available at: http://www.microinsurancecompendium.org/

The Role of Cell Captive Insurance in the Development of the South African Microinsurance Sector,
by Derek Pead and Lynn Witten
Available at: http://www.cenfri.org/documents/microinsurance/Alchemy_Cell%20captives_final%20draft30072010.pdf

Insurance and Technology to Better Serve Emerging Customers: Learning to Improve Access and Service,
Zurich Financial Services Group

Insurance in Developing Countries: Exploring Opportunities in Microinsurance, Lloyd’s 360° Risk Insight
Available at: http://www.lloyds.com/-/media/Lloyds/Reports/360%20RiskInsight/Insurance/DevelopingCountries.pdf

Protecting the Poor: A Microinsurance Compendium, edited by Craig Churchill
Available at: http://www.microinsurancecompendium.org/

The Landscape of Microinsurance In Africa
by Michal Matul, Michael J. McCord, Caroline Phily, and Jim Roth
Available at: http://www.microfinanceopportunities.org/docs/Landscape_of_Microinsurance_in_the_100_Poorest_Countries.pdf

“M-Insurance: The Next Wave of Mobile Financial Services?” by Jeremy Leach
Available at: http://www.microinsurance.com/news.asp?id=47&start=5

The Demand for Microinsurance in Pakistan by Elizabeth McGuinness and Volodymyr Tounytsky
Available at: http://www.microfinanceopportunities.org/docs/Demand_for_Microinsurance_in_Pakistan.pdf

“Weather Index Insurance: The Case for South Africa” by Shadreck Mapfumo
Available at: http://www.microfinancegateway.org/gm/document-1.9.29543/43854_file_Weatherindexinsurance_Sa.pdf

“The Landscape of Microinsurance In Africa” by Michal Matul, Michael J. McCord, Caroline Phily, and Jim Roth
Available at: http://www.ilo.org/wcmsp5/groups/public/---emp/documents/publication/wcms_124365.pdf

“Micro-Insurance: Extending Health Insurance to the Excluded” by David Dror and Christian Jacquier
Available at: http://www.microinsurancecompendium.org/file/extendinghealthinsurance_to_the_excluded.pdf

“Access to Insurance and Financial Sector Regulation,” by Arup Chatterjee (forthcoming)