Access to Insurance Initiative

A global programme for sound regulatory and supervisory frameworks

IAIS-A2ii Consultation Call: 26 November 2015

"Supervisory Responses to Consumer Risks in Mobile Insurance"

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This presentation is based on a study conducted by Advision Finance B.V. and Amarante Consulting commissioned by

Agenda

1. Introduction
2. Roles and Responsibilities of different stakeholders
3. Risk analysis
4. Example interaction of risks in ‘Free-mium’ model
5. Example responses for monitoring and managing risks

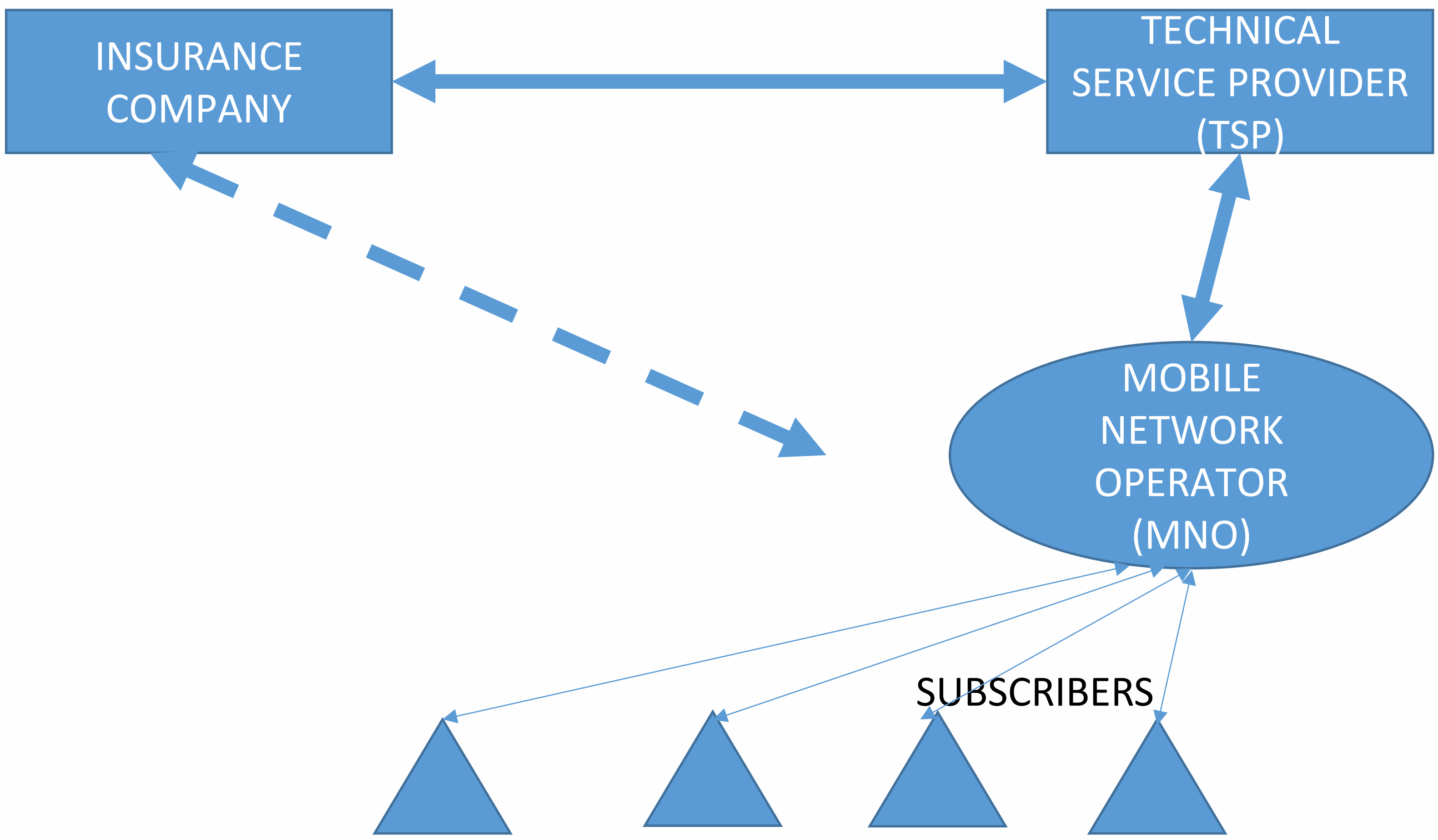
What is mobile insurance?

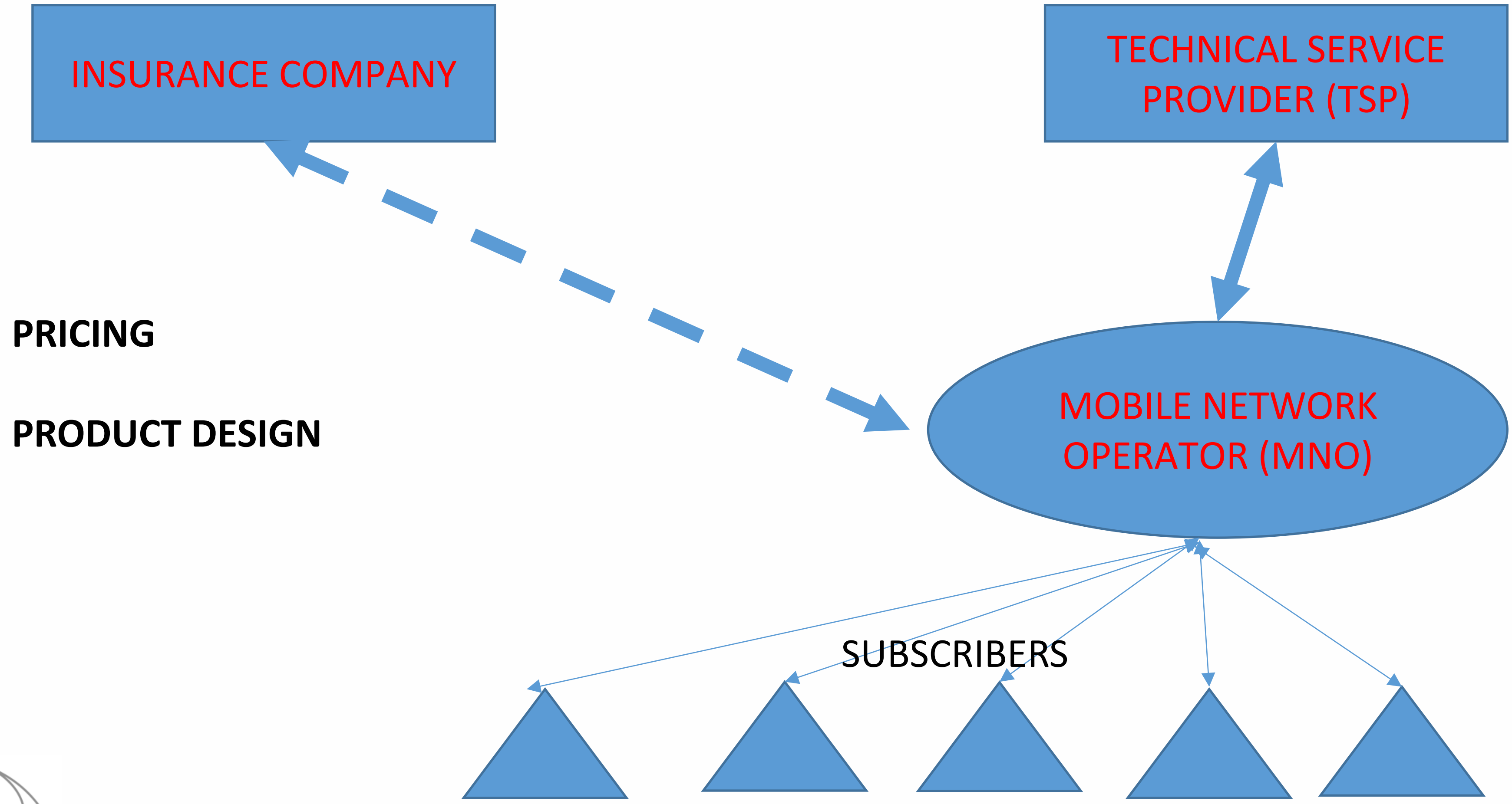
Definition: ***"Mobile insurance relies on the mobile phone ecosystem and infrastructure to support the functions of the insurance process. Simply put, mobile insurance is insurance sold through or with some level of assistance by MNOs. The functions provided by the mobile infrastructure and device can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

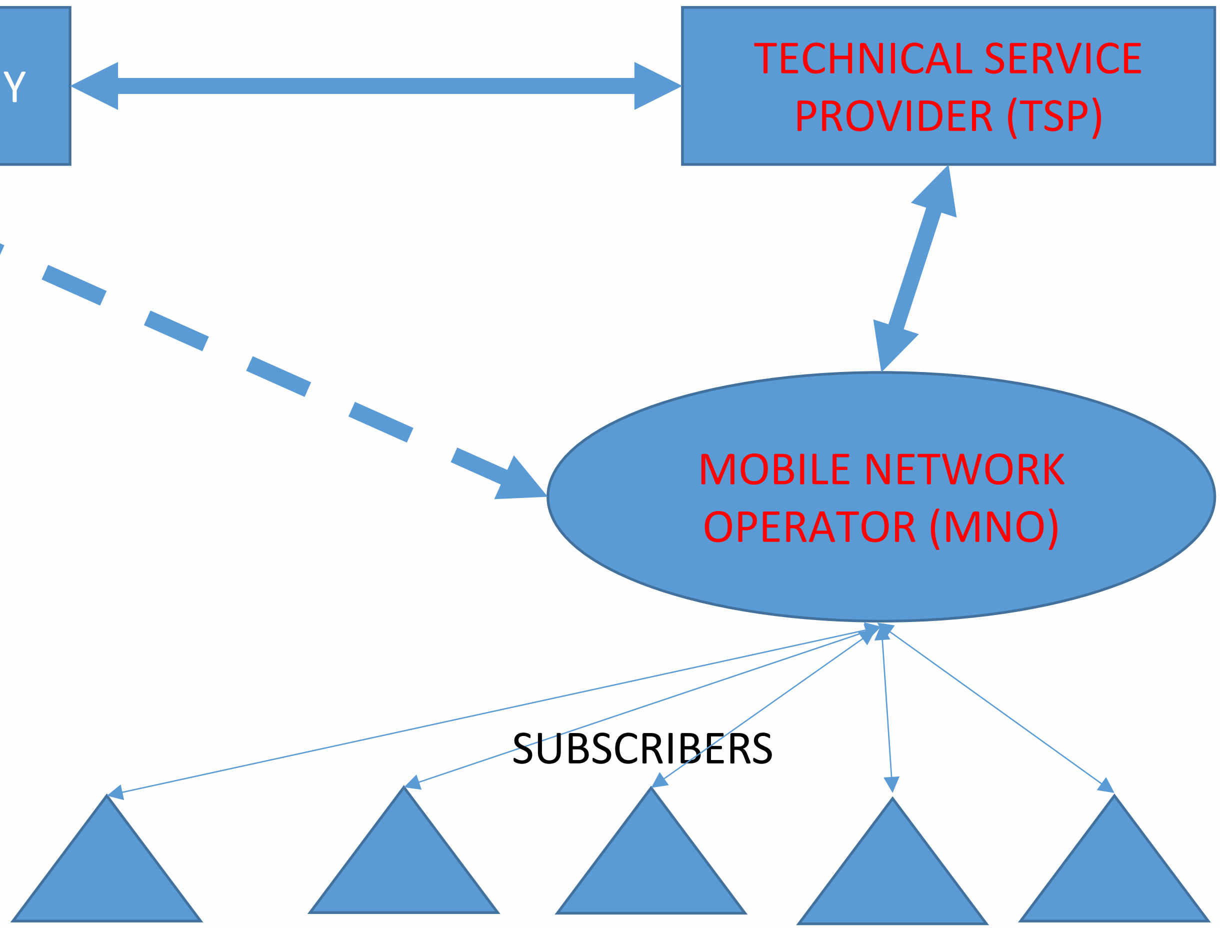
BMZ/GIZ: Discussion Paper "Responsible Mobile Insurance"

- Mobile-insurance has huge potential in advancing inclusive insurance markets; through making insurance products and services attractive, accessible and economically viable.
- High mobile penetration in all regions of the world led to rapid growth of mobile-insurance in recent years:
- IAIS Applications Paper recommends that regulation and supervision should recognise a wide range of business models, potential market participants and service providers and permit these approaches while protecting policyholders.
- However, little information for supervisors currently available on mobile insurance….

2. Roles and Responsibilities

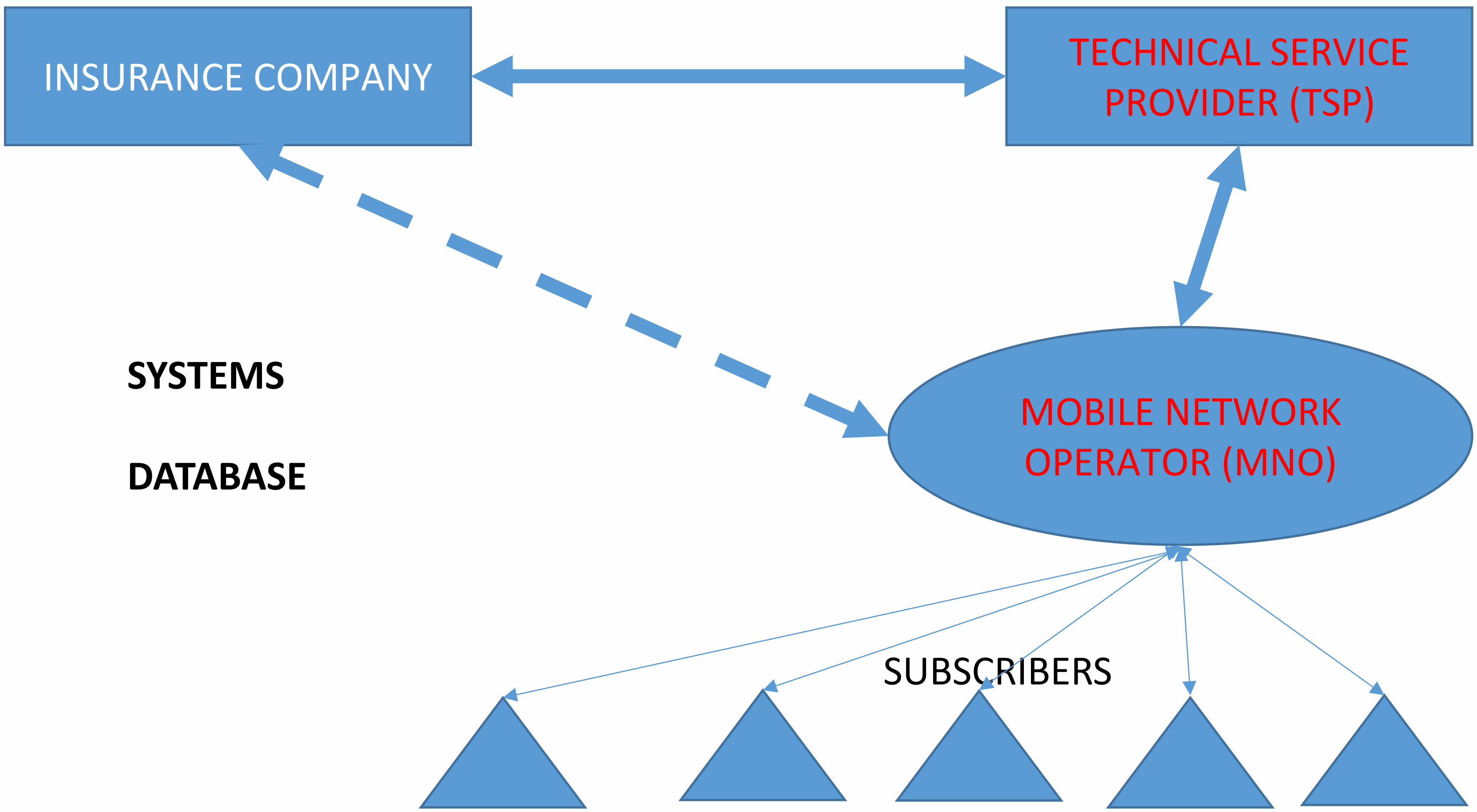



INSURANCE COMPANY
TECHNICAL SERVICE PROVIDER (TSP)
PRICING
PRODUCT DESIGN
MOBILE NETWORK OPERATOR (MNO)
SUBSCRIBERS

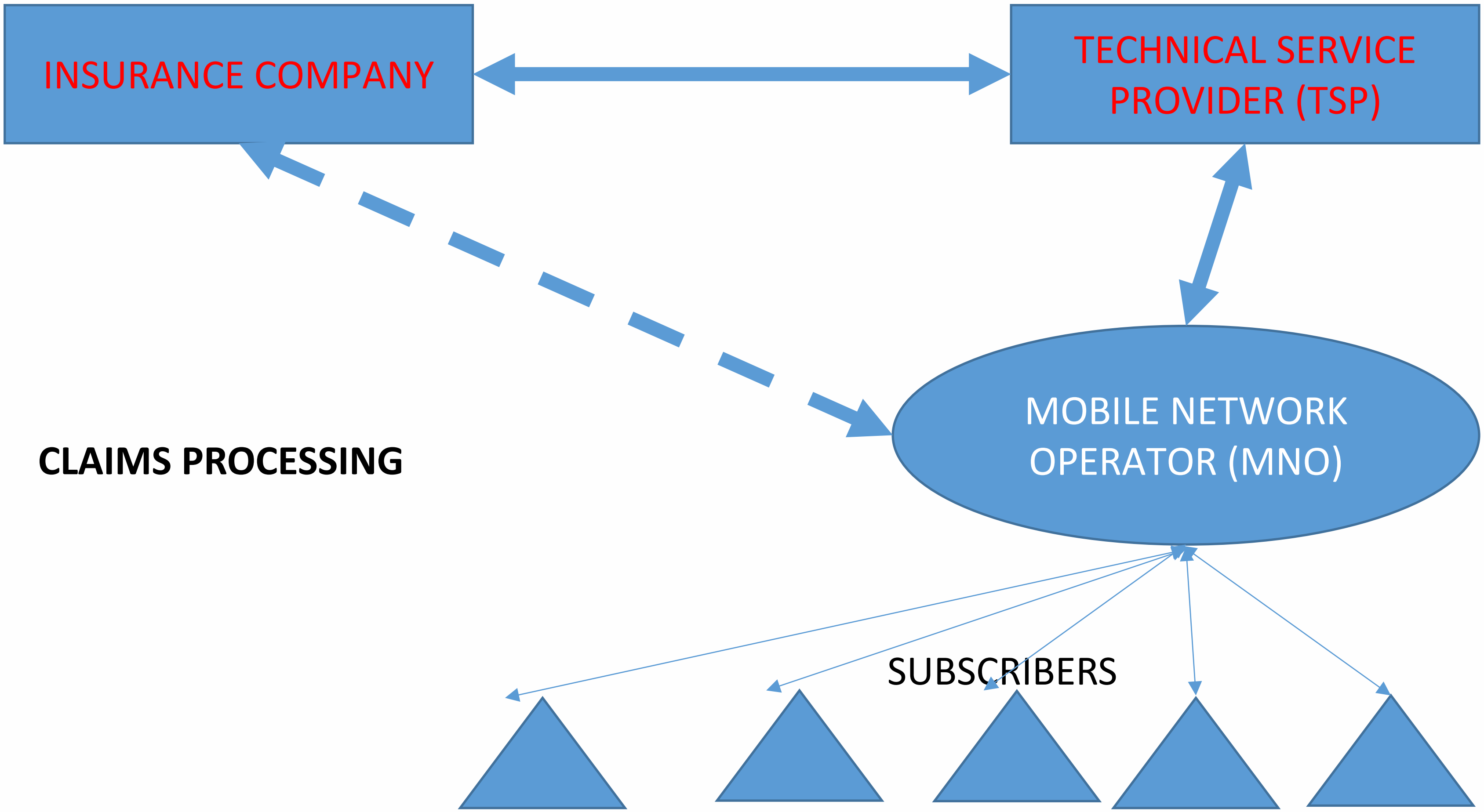


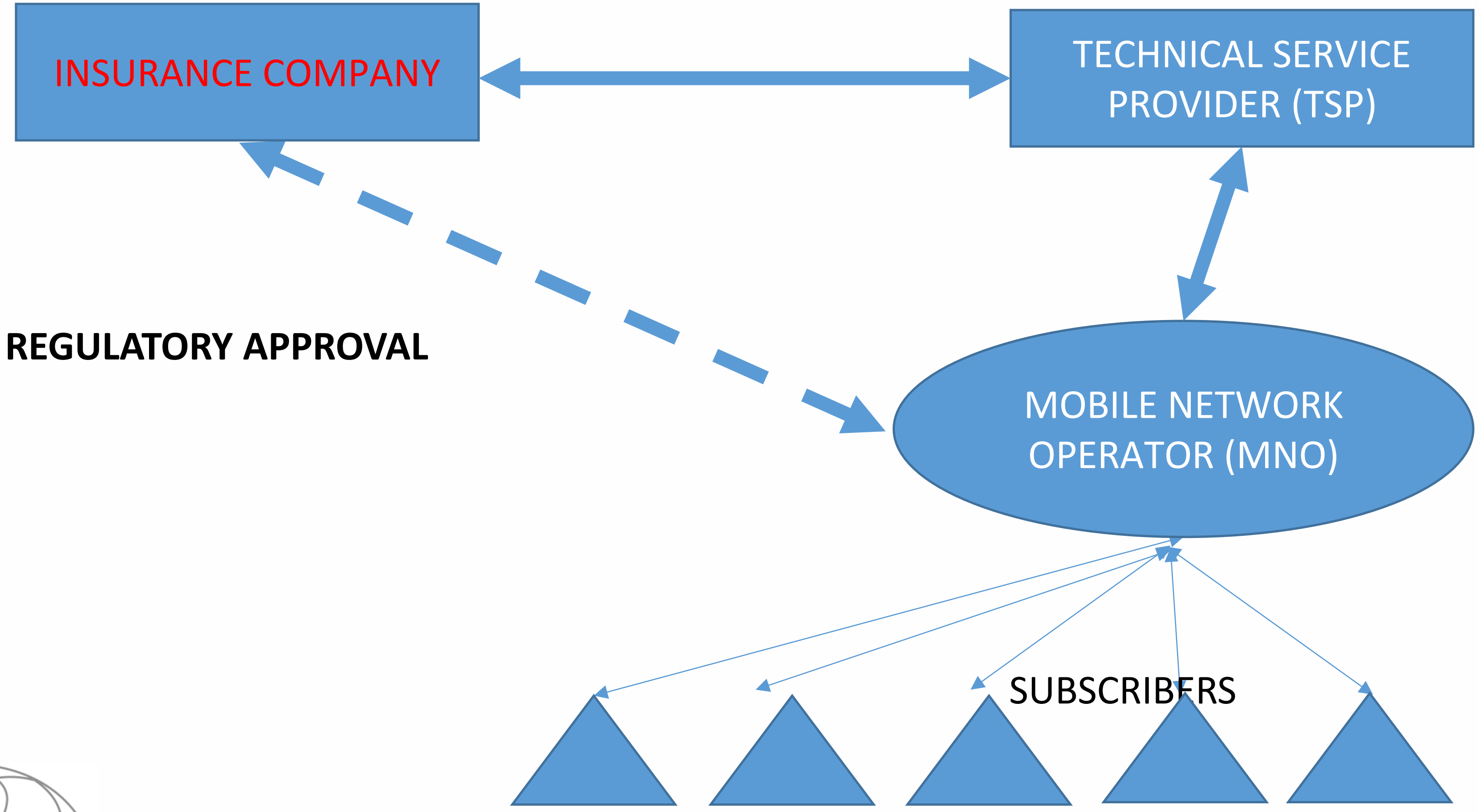
MARKETING

DISTRIBUTION

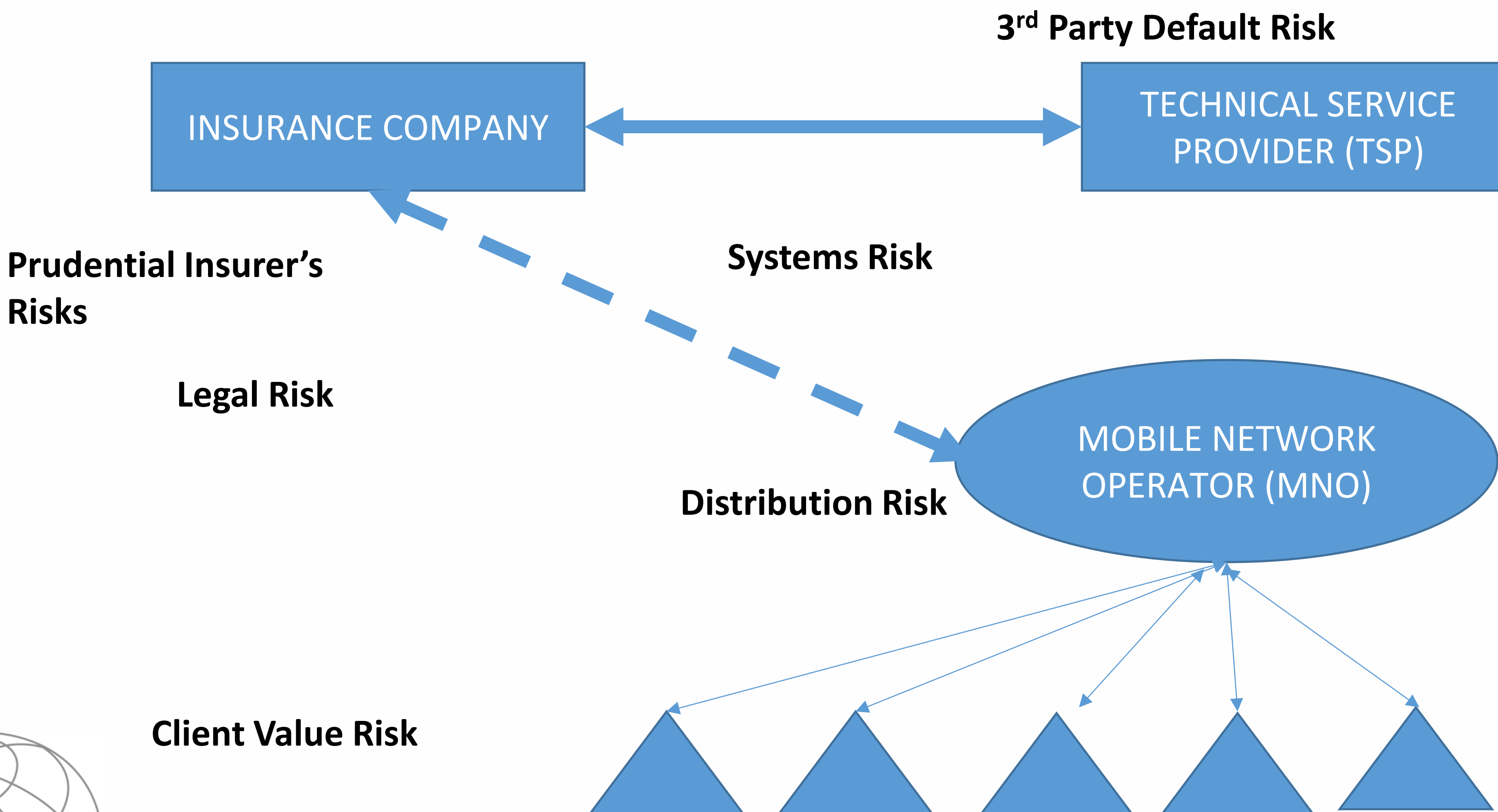

INSURANCE COMPANY
TECHNICAL SERVICE PROVIDER (TSP)
SYSTEMS
DATABASE
MOBILE NETWORK OPERATOR (MNO)
SUBSCRIBERS

CLAIMS PROCESSING

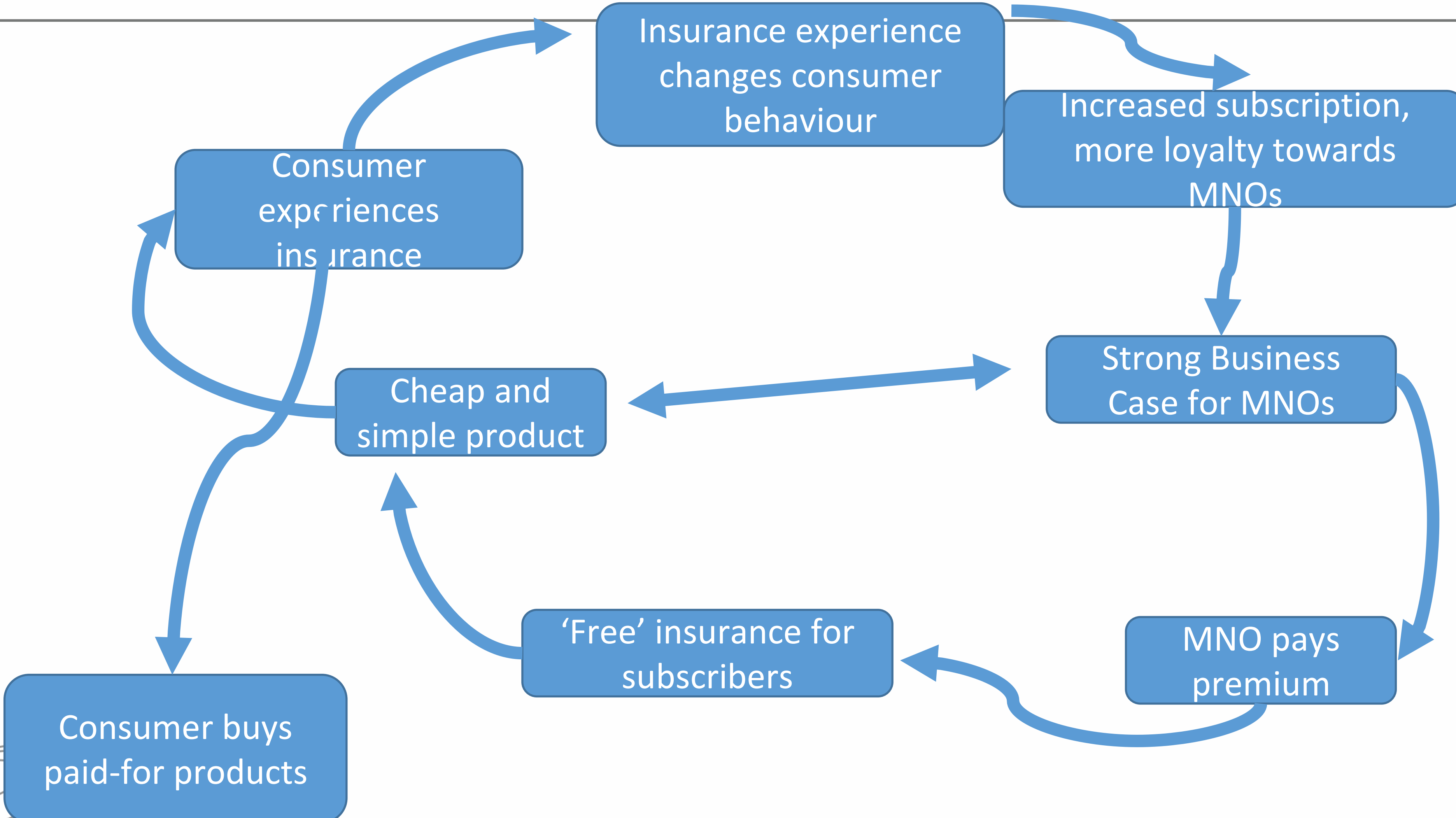



INSURANCE COMPANY
TECHNICAL SERVICE PROVIDER (TSP)
REGULATORY APPROVAL
MOBILE NETWORK OPERATOR (MNO)
SUBSCRIBERS

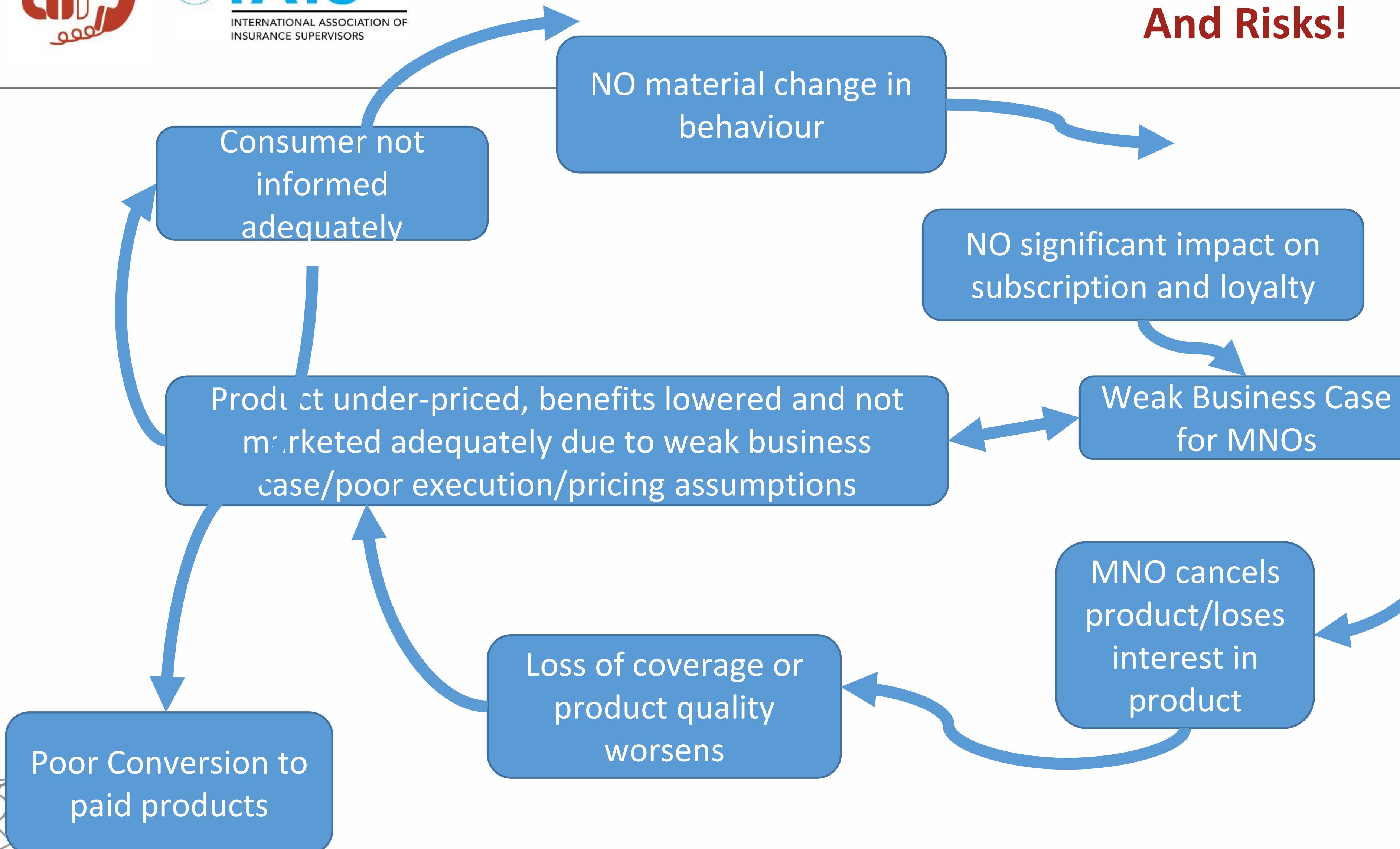
Summary of risks



4. The Free-mium Theory…



And Risks!



Consumer not informed adequately
NO material change in behaviour
NO significant impact on subscription and loyalty
Product under-priced, benefits lowered and not marketed adequately due to weak business case/poor execution/pricing assumptions
Weak Business Case for MNOs
MNO cancels product/loses interest in product
Loss of coverage or product quality worsens
Poor Conversion to paid products

3. Risk analysis - Client Value Risk

1. Subscribers may not be aware of product (particularly loyalty products)- hence very low claims frequency, very low claims ratios;
2. Subscriber’s family members may be even less aware of the product-hence very few claims for subscriber deaths;
3. Even when aware, subscribers may not fully understand product coverage and T&Cs;
4. Sum insured not sufficient compared to cost incurred by customers;
5. Customers not given options for enrolment or premium payment method is unpopular;
6. Customer cannot easily cancel product;
7. Customer complaints and queries are not adequately handled;
8. Claims are rejected due to mismatch between Policyholder’s Reasonable Expectations (PRE) and insurer’s guidelines;
9. Claims process is complicated, burdensome and lengthy;
10. Customers perceive poor value if low utilization or very few claims being paid out.

Prudential Insurer's Risk

1. Risk premium is under-priced (assumes low customer awareness);
2. Insurer does not meet liabilities;
3. Delay in collecting premium;
4. Anti-selection and Fraud;
5. Expenses (Operational or Fixed) higher than expected;
6. Volumes lower/higher than expected and mix different from expected;
7. Inadequate Reinsurance;
8. Inadequate Reserves and Capital.

Distribution Channel Risk

1. Premium has to be very low for loyalty product for it to make business sense for the MNO (not justifiable actuarially)- dependent on under-reporting of claims;
2. Actual business case is not as strong as expected (e.g. for loyalty products);
3. MNO's reputation affected due to disputes over product;
4. Exit plan or Transition plan not in place/not working properly when products are being changed or discontinued;
5. MNO paying for a disproportionately high % of expenses (start-up and operational);
6. Loss of data if product is cancelled as data stays with MNO;
7. MNO does not fully understand the implications of changing/cancelling insurance products- perceives insurance as a pure marketing tool rather than a relatively long term financial service;

Marketing Risk

1. Product not explained properly;
2. Sales staff not trained sufficiently;
3. Customer awareness during transition from loyalty to paid products;
4. Marketing literature not clear/misleading;
5. Marketing expenses higher than expected.

Legal Risk

1. Recourse to settling disputes not clear;
2. Insufficient regulatory oversight;
3. Perception of product ownership and Accountability;
4. Data protection;
5. Rights of subscriber vs MNO;
6. Policy documentation;
7. Use of airtime for payment of premium.

Systems Risk

1. Systems are unable to scale-up;
2. Data not available anymore if partnership collapses;
3. Technological breakdown;
4. Data not maintained properly. Data errors.

3rd Party Default Risk

1. Measure the dependency of the insurance co on partners (TSP, bank…)
2. Capability of partners to manage the business on behalf of the insurance co: handling claims, administration….
3. Lack of capacity/understanding among local insurers.

Potential Impact of Risks- 1

RISK	POTENTIAL IMPACT
Client Value Risks	a) Demand falls; b) MNOs do not perceive value; c) Product discontinued; d) Disputes with insurer; e) Reputation risk; f) Can affect market confidence in insurance and also affect financial inclusion
Insurer's Prudential Risks	a) Insurer cannot meet liabilities; b) Product has to be re-priced or re-designed, causing reduction in volumes/ confidence; c) Insurer cancels product; d) Insurer does not innovate further; e) (Re)insurer appetite in sector reduces
Distribution Risks	a) Product discontinued/cancelled; b) Product transitioned (e.g. Loyalty to paid) but without customers being aware; c) Insurer's business risk due to disruption of product; d) Lack of access to data in event of product cancellation.

Potential Impact of Risks- 2

RISK	POTENTIAL IMPACT
Marketing Risks	a) Disputes over products; b) Bad reputation of stakeholders and insurance overall; c) Products are cancelled due to disputes and lack of business impact for MNOs
Legal Risks	a) Best practices not followed in absence of supervision; b) Mismatch of accountability e.g. MNOs perceived as ‘owning’ products but not regulated; c) Customer data misused; d) Disputes not resolved clearly;
3rd Party Risks	a) Product exposed to inefficiency of TSP; b) Insurer does not develop capacity for innovation; c) Product affected by exit of or change in strategy of TSP
Systems Risks	a) Data not available; b) Covariate risks with technological breakdown; c) Systems unable to keep up with scale-up; d) Systems errors can lead to gap /discontinuity of coverage

5. Example responses for monitoring and managing risks

- Product Approval Stage: to monitor before product has been launched
- After launch stage: product performance
  - Quantitative measure of key performance indicators
  - Qualitative measure of key performance indicators
- Mutli regulatory approach: coordination between different regulatory authorities e.g. Insurance regulator, Mobile regulator, Central Bank

THANKS FOR LISTENING

YOUR QUESTIONS/COMMENTS:

- **Agrotosh Mookerjee (agrotosh@gmail.com)**

Mobile Insurance Risk Assessment in Ghana

Thursday 26th November, 2015

Outline

- Background
- M-Insurance Products and Stakeholders in Ghana
- Risks

Background

- 2.7 million policyholders for m-insurance products (June 2015), 5m GHS premium (2014), 60% of all MI policyholders (2014);
- Three types of players:
  - Three MNOs (Tigo, Airtel, MTN) currently active in the market
  - The active insurers in the market are Prudential, Enterprise Life and UT Life
  - Technical service providers, such as BIMA and MicroEnsure also operate in the market, also IT platforms such as MFS Africa
- 6 products currently on the Market
- 3 regulatory authorities, National Insurance Commission, National Communication Authority and Bank of Ghana
- Regulatory instruments in the market are –Microinsurance Market Conduct Rules,2013; Branchless Banking Regulations and E-Money Guidelines(BoG, June 2015)

Summary of Current M-Insurance Products

Partnerships	Type of product	Risks insured	Year Started	Estimated Policyholders
Partnership A	Paid	Funeral (subscriber and next of kin)	2011	8,000
Partnership B	Paid	Funeral (subscriber and next of kin)	2010	550,000
	Paid	Hospital-cash	2013	700,000
	Loyalty	Funeral	2010	70,000
Partnership C	Loyalty	Life, Accident, Disability, Hospital-cash	2014	1,400,000
	Paid	Life, Accident, Disability, Hospital-cash	2015	94,000

Risk Framework

Some models performing better than others, some products are being transitioned from a loyalty product to a paid product(business case not strong enough).

Key risks emerged are;

- Client Value Risk
  - Subscribers may not be aware of product (particularly loyalty products)- hence very low claims frequency, very low claims ratios;
  - Even when aware, subscribers may not fully understand product coverage and T&Cs;
- Insurers Prudential Risk
  - Large proportion of the premium goes towards TSPs and MNOs (for paid products) e.g. for some paid product insurer is receiving less than 15% of the total gross premium.
  - Paid product actual volume have been much less that expected resulting in much lower profits that expected
  - For some paid products high levels of adverse-selection and also fraud has been observed, leading to claims ratios in excess of 80% and hence leading to loss-making products for the insurer

- Distribution Channel Risk
    - Business case for continuing loyalty-based products is very weak for MNO's(no significant increase in ARPU nor reduction in Churn)
    - MNO’s reputation affected when there are client disputes over product/service;
- Marketing and Sales Risk
    - For a loyalty product with over a million customers 80%-90% of subscribers may have been unaware that they were insured. One of the main reasons for this low level of customer awareness is the lack of an effective marketing plan.
    - One MNO has stopped investing in the marketing process, leading to low product awareness among MNO staff, consequently, staff is either not explaining the product to subscribers or correctly explaining the product, leading to conflict between policyholder’s reasonable expectations (PRE) and the insurance terms and conditions.
- Legal Risk
    - Non involvement of other regulatory bodies such as NCA and BOG
    - No clear processes for addressing disputes between subscribers and MNOs/insurers, In some cases, the disputes are taken to court or referred to the NIC only

- Systems Risk
  - Occasional systems problems were reported by some MNOs, such as ‘down-time’ of the network coverage. This led to customers not being notified that their premium is due.
  - Data not available anymore if partnership collapses
- 3rd Party Default Risk
  - Most insurers are not involved in the technical and operations areas of m-insurance business, the risk is that the TSP and MNO's can easily change an insurer.

Using the key risk identified , all six m-insurance products were analyzed by risk-scoring each product. Rating was done on a scale of 1-5, with 1 being very low risk and 5 very high risk. Of all the risk identified

- Systems Risk
  - Occasional systems problems were reported by some MNOs, such as ‘down-time’ of the network coverage. This led to customers not being notified that their premium is due.
  - Data not available anymore if partnership collapses
- 3rd Party Default Risk
  - Most insurers are not involved in the technical and operations areas of m-insurance business, the risk is that the TSP and MNO's can easily change an insurer.
- Using the key risk identified , all six m-insurance products were analyzed by risk-scoring each product. Rating was done on a scale of 1-5, with 1 being very low risk and 5 very high risk.
- For most products, Distribution ,3rd Party Default and Marketing and Sales risk, scored very high risk (Risk score 4 or above)
- Out of the 6 products on the market,3 products scored a HIGH overall risk level.

Recommendations

- Product Approval Stage : to monitor before product has been launched
- After launch stage : product performance
    - Quantitative measure of key performance indicators
    - Qualitative measure of key performance indicators
- Multi regulatory approach : coordination between regulatory authorities

Annex I

Romanian Financial Supervision Authority: Regulation on the trading, by electronic means, of insurance contracts

Romanian Financial Supervision Authority: Regulation on the trading, by electronic means, of insurance contracts

Rule No. 15/2015 on the trading, by electronic means, of insurance contracts
Print, adopted on 14 August 2015

This rule lays down the conditions under which the Financial Supervisory Authority regulates the trading, by electronic means, of insurance contracts.

Electronic means of trading insurance contracts – means online applications, applications installed on mobile terminals, internally developed by insurers or by the providers, on which the insurer's own products and/or comparison of offers from several insurers may be directly presented (without redirecting the same), and/or where requests for offers may be made or orders of insurance contracts may be placed and/or from which insurance policies may be issued as electronic services.

Background

- Motivation to develop a Rule on e-commerce: the need for a regulation concerning e-commerce with insurance products (not just mobile insurance) came from the fact that, there were websites without disclosing identification data or insurance register or cases where the insurance products were sold by "ghost" sellers and the end user was facing a possible fraud
- Consulting process: when drafting the regulation both insurance and brokers associations were consulted (for every Law or regulation we have a period of public consultation). In this specific case we also had a meeting with the members of insurance association (23 members attended). It was a constant dialogue with the market to make sure the provisions fit the purpose.
- It was not necessary to amend the existing insurance Law in order to introduce the Rule on e-commerce

Correct and transparent information to policyholders and/or prospective policyholders:

The offer generated and submitted shall at least contain the following:

1. Identification data of the object to be insured and/or of the owner/consumer/prospective policyholder;
2. Questions of the insurer/ insurance intermediary required for classification in risk classes;
3. Answers of the prospective policyholder to the questions referred to in point 2 and based on which the offer was calculated by the IT system;
4. Insured amounts;
5. Franchise (excess or deductible), if any, stating clearly the amount thereof, cases in which it applies and amounts to which it applies (if they are expressed as a percentage);
6. Insured period;
7. Insured risks;
8. Exclusions;
9. Territorial coverage of risks;

10. Total price which the consumer/prospective policyholder must pay, indicating any levies, additional costs or related expenses and any additional cost arising from the insurance as a result of using the electronic means of trading insurance contracts;
11. Fee of the agent(s), in the case of MTPL policies;
12. Bonus/malus class, in the case of MTPL policies or whenever applicable;
13. Period of validity of the offer;
14. Unique code for confirmation of the offer;
15. Need to carry out an inspection risk or not;
16. Any documents required for the execution of the insurance contract;
17. Information on the payment modalities and for making payments;
18. The prices displayed through the electronic means of trading insurance contracts cannot be different from the amounts received/paid by prospective policyholders and provided in the insurance contract/tax receipt/payment order/payment confirmation; in this respect, such information shall be displayed clearly and distinctly

- **The entities shall comply with the provisions of this regulation as of 1 January 2016.**

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

For more information please contact:

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Regulatory & Licensing Directorate
Insurance-Reinsurance Sector
Financial Supervison Authority
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Full text of the Rule:
No.15/2015http://www.asfromania.ro/files/engleza/legislation/insurance/Rule_No_15_2015_comercializare_el_contr_asigurare_final.pdf