access to insurance initiative

IAIS
INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

Report of the 13th A2ii – IAIS Consultation Call

Supervisory Responses to Consumer Risks in Mobile Insurance

26 november 2015

The A2ii consultation calls are organised in partnership with the IAIS to provide supervisors a platform to exchange experiences and lessons learnt in expanding access to insurance.

The 13th consultation call, held on 26 November 2015, was focused on the risks associated with mobile insurance products and possible supervisory responses. Four calls were hosted by the A2ii and IAIS: two in English, one in French and one in Spanish.

Technical inputs were provided by Agrotosh Mookerjee[1], micro-insurance consultant and actuary on the English calls, Renata de Leers, Actuary, ACB Consulting on the French and Pascal Simon, Amarante Consulting on the Spanish call. Michael Kofi Andoh, from the National Insurance Commission (NIC) in Ghana, shared their experience dealing with mobile insurance and on the Spanish call Luis Eduardo Iturriaga Velasco from the National Commission of Insurance and Finance (CNSF) presented Mexico's regulation regarding the use of electronic means of trading for insurance contracts and other financial services. In addition, the Romanian Financial Supervisory Authority (ASF) shared information on its recently adopted insurance regulation covering the electronic trading of insurance contracts.

The calls focused on the risks arising from mobile insurance and appropriate regulatory responses from supervisors to mitigate these. The presentation made on the call was informed by the study **"Mobile insurance and risk framework in Ghana"** by Advision Finance and Amarante Consulting, commissioned by the NIC Ghana and the project for Promoting Insurance in Ghana (PromIGH) of GIZ.

During the call, special attention was paid to **loyalty-based products and the 'freemium' approach**, and their impact on the insurance value chain as well as the main risks related to these products and approaches like: **distribution channel risks, third party default risks, and marketing & sales risks** among others. The calls highlighted the importance of developing specific regulations for mobile insurance (which are largely unregulated at present) and the need to involve and coordinate with non-insurance supervisors (e.g. telecommunications regulators) where relevant.

> ***Mobile insurance has huge potential in advancing inclusive insurance markets,through making insurance products and services attractive, accessible and economically viable.[2]***

Mobile Insurance

Mobile penetration is very high in developing countries, and has been experiencing rapid growth especially over the last 5 years[3]. In some countries, where adults have more than one sim-card, it can even eclipse 100%. Mobile phones have significantly higher outreach than banks, microfinance institutions (MFIs) and cooperatives and as the number of mobile accounts increases, outpacing the number of bank accounts, it is changing the traditional financial service infrastructure.

1 The study "Mobile insurance and risk framework in Ghana" is available at here.
2 Agrotosh Mookerjee, micro-insurance consultant and actuary
3 See the report by BFA on the digitalization of microinsurance for more information - http://cenfri.org/microinsurance/can-the-digitalization-of-microinsurance-make-all-the-difference-assessing-the-growth-potential-of-digital-microinsurance

In terms of mobile-phone supported insurance, significant market dynamics have been observed in many countries. Yet for an area where so much is happening, and where moreover several business partners (telecom, insurer, intermediary, administrator) and regulators (insurance, banking, telecom) are involved, there is currently very little information about: how the partnerships evolve, about the products and how they work, or the risks and potential supervisory responses. This consultation call built on the work of the IAIS and the A2ii in this area (see the box below) to further assist supervisors in responding to this innovation.

Focus: IAIS and A2ii work on regulating mobile insurance

The IAIS Applications Paper on Regulation and Supervision Supporting Inclusive Insurance Markets recognises the important role that innovations in mobile and other technologies can play in growing inclusive insurance markets. The 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, it is recognised that keeping up with the speed of technological innovation, and the new challenges and risks they give rise to can be a real challenge for insurance supervisors. Therefore, to try and provide supervisors with additional support to better understand some of these emerging risks the A2ii and the IAIS have jointly developed a number of publications and tools :

- IAIS/A2ii Synthesis note on evolving microinsurance business models and their regulatory implications (February 2014)
- IAIS/A2ii 2nd consultation call on technical innovations in insurance distribution and regulatory implications (April 2014)
- IAIS Issues Paper on the Conduct of Business in Inclusive Insurance Markets (November 2015)

Additionally, the IAIS 2016 Work Plan includes the establishment of a new working group on digital financial inclusion. This consultation call will act as input into the working group's work plan.

Defining Mobile (micro) insurance

Mobile (micro) insurance can be defined as "insurance that 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".[4]

Broadly there are two main models in microinsurance. The first, the **transactional model,** is where the mobile phone or channels plays a purely transactional role in facilitating the payment of insurance premiums, for example when mobile money is used. The second, the **strategic model**, is where the mobile network

4 BMZ/GIZ: Discussion Paper "Responsible Mobile Insurance"

operator (MNO) offers the insurance products themselves as part of the suite of services they offer to their mobile subscribers. This business model is built on a partnership of an MNO with an insurance company. Usage of the insurance product is tied to the usage of other mobile services the MNO has on offer. The consultation call focused primarily on the latter, the strategic model, because of its high take-up in comparison to the transactional model.

The most common approach under the strategic model is the loyalty product (especially in Africa and Asia), described in more detail in the box below.

> ***In order for the economics of the pricing and product design to make sense, the product has to be very strongly aligned with the business metrics of the MNO itself.*** [5]

Focus: the Loyalty product model in mobile microinsurance

A loyalty product in mobile insurance means that initially, the MNO pays the premium on behalf of its faithful customers, making it essentially a free offering for a certain time, at least from a client perspective. The level of insurance coverage is usually given on a monthly basis, and is linked to the amount of airtime the customer uses (or in some cases other services offered by the MNO). This incentivises customers to spend more money with the MNO offering the free insurance product – increasing the average revenue per user (ARPU). Greater loyalty towards the MNO is also expected, thus decreasing customer churn (in many developing countries, people are using several SIM cards, often due to connectivity challenges). These considerations make loyalty mobile insurance a strong business case for the MNOs. For the business case to remain viable, the product has to be offered at a very low-cost to the provider. Additionally, the product has to be quite simple and applicable to the majority of the adult population, since it is a mass-market product that the MNO offers to all its subscribers. The long-term strategy for the MNO, Technical Service Provider (TSP) and the insurance company is to convert these loyalty customers to paying customers after experiencing the positive benefits of insurance. This is called the freemium approach (sometimes also called loyalty - plus).

The MNO offers these clients a paid product, or product upgrade, which can include further benefits, or further persons insured, like family members. In some schemes, like the Tigo's life plan in Ghana, a significant number of MNO clients make use of the paid option.

However, there is evidence from developing countries that due to a general lack of customer awareness few customers are actually claiming what they are entitled to, and therefore gaining little value from their insurance policy. This means that in the end, the expected behavioural change may not take place, which may lead to the MNO losing interest in the product and discontinuing it, leaving the client again uncovered.

For more information please see the discussion paper on Responsible Mobile Insurance from BMZ/GIZ (https://a2ii.org/sites/default/files/reports/responsible-mobile-insurance.pdf).

5 Agrotosh Mookerjee, micro-insurance consultant and actuary

Roles and Responsibilities of Different Stakeholders

In the strategic model of mobile insurance, there are typically three parties involved. The first is the **insurance company,** who can legally underwrite the insurance and is regulated by the insurance supervisor. The second, the **mobile network operator (MNO)** which holds the customer base (i.e. their subscribers), and the third, the **technical service provider (TSP)**, which acts as the intermediary and administrator between the MNO and the insurance company. The roles and responsibilities of these different parties in the strategic model are as follows:

- ***Pricing and product design.*** All three parties play a role in the pricing and product design, but they are often driven by the MNO. The insurance product is an integral part of the MNO's value proposition to its subscribers, and is essentially treated as a marketing tool. There is generally very little bargaining power for the insurance company underwriting the product and the insurer often receives only 15% of the premium. In the pricing process, the insurance company is generally only involved in the approval of the product structure and pricing after the MNO and TSP have come to an agreement (rather than being involved in the bargaining process from the beginning).

- ***Marketing and distribution.*** The biggest role for the MNO is bringing in consumer information and distributing the insurance. MNOs tend to have stronger brands than insurance companies in developing countries and therefore, a MNO branded product can be expected to sell better. The result is that the insurance product is often seen as belonging to the MNO, and in some cases, the customers are not even aware that the insurance company underwriting the product is actually the provider of the insurance product they are using.

- ***Consumer data.*** The TSP tends to own and maintain the consumer data. This results in the insurer generally having no access to the data of the consumer it insures. Further telecommunication or data protection regulation (rather than insurance regulation) often prevents access to any customer data if the insurance product is cancelled. Thus, when a TSP or MNO decides to discontinue a mobile insurance product, all the customer data may be lost for the insurer.

- ***Claims processing.*** The insurance company and the TSP work together when processing claims. The TSP collects all of the documents required from the customer-side of claims and the insurance company deals with the actual pay-out.

- ***Regulatory approval.*** The insurance company is regulated for underwriting insurance products. The TSP is sometimes regulated as a broker or agent; in other cases it may not have an insurance license at all. However, with the exception of underwriting and when they have been approved, the MNO and TSP are responsible for most of the activities that deal specifically with the consumers. At present there is very little clarity on the oversight of the MNO and TSP responsible for these activities. The result is that supervisors have little authority (if any at all) or recourse option when things go wrong. A recent entry point here is the approach taken by some supervisors (e.g. Ghana) to require approval of the partnership agreement between the insurance supervisor, the telecom authority and the banking supervisor.

Major risks and potential impact of strategic mobile insurance business model

Some of the major risks embedded in the strategic model are the following:

- **Client value risk** (e.g. subscribers may not be aware of the products – hence low claims frequency and low claim ratios)
- **Prudential insurer's risk** (e.g. premiums the insurer receives from the MNO are actuarially not justifiable)
- **Distribution channel risk** (e.g. the actual business case is not as strong as expected)
- **Marketing risks** (e.g. the product is not explained properly)
- **Legal risks** (e.g. data protection)
- **Systems risk** (e.g. technological breakdown)
- **Third party default risk** (e.g. high dependence of the insurance company on the partners)

A comprehensive table capturing all potential risks emerging from mobile insurance models and the possible impact that insurance supervisors need to manage can be found in the annex.

Monitoring and managing risks

There are different ways in which the supervisor can appropriately respond to the risks identified above. For example, the risk of a product being discontinued at a later stage can be managed during the product approval stage, with the approval of the partnership agreement including an exit strategy for the business partners. The supervisor could develop a mobile microinsurance product template that reflects the uniqueness of the medium through which the product is being sold and helps avoid common mistakes. It would also be crucial for the supervisor to engage with the MNO as to what it specifically expects from the roll-out of the product, and whether those expectations are reasonable. Checking this before the product is brought onto the market might help avoid situations where an insurance product is rolled out, many subscribers are added on, only for the product to be cancelled at a later stage due to the MNO's (perhaps unrealistic) expectations not being met, or due to other reasons such as lack of client acceptance.

Further, it is important to involve the other regulators in the design of regulations. As was mentioned above, there are currently gaps in regulation, where mobile insurance products are regulated only through the insurance company and the intermediaries and "client owners" MNOs and TSPs are left unchecked.

After the launch stage, the performance of the insurance product should be monitored. This can be done through a combination of quantitative and qualitative performance indicators.

Michael Kofi Andoh presented the example of the National Insurance Commission in Ghana, summarised in the box below.

Case Study: National Insurance Commission Ghana

The National Insurance Commission (NIC) in Ghana has been working on the topic of mobile insurance since it was introduced in 2010. Two different products were offered: a loyalty product, in which good clients received the product for free and a product for which the clients had to pay. The freemium approach was successful, as a high percentage of clients purchased the paid option. This was largely due to the fact that the insurance market was still not sufficiently developed and awareness was therefore low and people were not motivated to purchase the product.)

Further, little information was available on who these clients were that were being reached and the functioning and risks of these new products. However, the potential for mobile insurance to grow the insurance market in Ghana was clear. Between 2010 and 2015, the number of clients of mobile insurance increased from 60,000 to 2.7 million. Further, the NIC conducted two landscape surveys, in 2011 and in 2014, which found that mobile phones had overtaken MFIs as the biggest distribution channel for insurance. This prompted the NIC to develop and conduct a mobile insurance risk assessment.

The Mobile Insurance Risk Assessment1 identified three types of players active in the Ghanaian mobile insurance market: MNOs (Tigo, Airtel and MTN), insurers (Prudential, Enterprise Life and UT Life) and TSPs (BIMA, MicroEnsure and MFS Africa). The current offering of mobile insurance products in Ghana can be summarised as follows:

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

The assessment evaluated the products alongside the risks insured as detailed in the table above. The scores ranged from 1 (very low risk) to 5 (very high risk). The majority of the current mobile micro-insurance products in the Ghanaian market scored high (4 or more) on distribution channel risk, third party default risk, and marketing & sales risk.

In order to manage these risks, the NIC introduced a set of monitoring tools in August 2015.

Case Study: New Regulation in Romania and Mexico

The consultation call included examples from the Financial Regulatory Authority of Romania and the National Commission of Insurance and Finance of Mexico with regards to how they are supervising mobile insurance products.

- The Romanian Rule No 15/2015 lays down the conditions under which the **Financial Supervisory Authority** regulates the trading, by electronic means, of insurance contracts. The motivation to develop a rule on e-commerce came from the fact that there had been a number of cases of fraud. During the consultation process in drawing up this law, both insurance and brokers associations were consulted. A meeting with the members of the insurance association was held, in line with the constant dialogue with the market. The key objective of the law is to ensure “correct and transparent information to policyholders and/or prospective policyholders” The full text of the new law can be found here.

- In Mexico, the **National Commission of Insurance and Finance** modified the chapter 4.10 and 4.11 of the *Circular Única de Seguros y Fianzas de México* introducing introducing a comprehensive amendment to the trade system, which was implemented a few years ago to enable trading through electronic channels. It includes a definition of electronic means of contracting and commercialisation of products. Additionally, Mexico introduced a new law with regards to contracting with third-party service providers, which is a homogenous regulation throughout the financial sector based on experiences from the banking sector.

Questions and Discussion

Which types of products are mainly sold through mobile insurance? Life insurance (including funeral components) and hospitalisation products are the main products sold. In Ghana, for example, there are six mobile insurance products on the market, of which four are life insurance and two are hospitalisation insurance.

How can the supervisor ensure that customers are given all relevant information when buying the insurance product? Michael Kofi Andoh stated that this is indeed a difficult issue given the trade-off of maximum protection, transparency and minimising costs. In Ghana, a compromise has been reached with the MNOs in that they at least compile a brief policy summary for all policyholders. This is an improvement compared to the SMS messages that policyholders previously received, as it gives policyholders a legal document to refer to in case of a dispute or uncertainty.

In terms of communicating with customers, which practices have been successful so far, and how should one proceed? The one strategy that has been shown to not be successful is SMS communication. The general assumption was that SMS communication would be the logical step for a product that is strongly linked to the mobile phone, but information is often spread out over multiple SMSes, or customers' inboxes are full and they have to be deleted, or customers receive so many spam SMSes that they do not really read them. This makes the communication very ineffective. An example of successful communication can be taken from the Ghanaian situation, where some MNOs have implemented a "high-touch model". This means that staff would be placed in MNO shops, but also in marketplaces and so on, where customers could go for a quick conversation about their products. With more people on the ground, and more call centres – in short, more in-person contact – the communication outcomes are better. This has been supported by higher claims ratios being reported for high-touch models than is generally the case with low-touch models, an indication of higher awareness.

Does the cancellation of an insurance product generally lead to serious reputational risks for MNOs or insurers? Agrotosh Mokerjee explained that in Ghana, this has generally not been the case. In the past, when products have been cancelled, they were either quickly followed by newly-released products, or they had not been accessed by many people to begin with. However, in other countries, cancellation of policies has led to greater problems. In Zimbabwe and Zambia, for instance, the most widely held mobile insurance products were cancelled, which led to serious reputational damage for the MNO and the insurer.

Are there any specific insurance regulations relating to the supervision of mobile insurance? Generally there is no specific regulation relating to mobile insurance. Many countries have separate regulation for microinsurance, outlining specific distribution avenues, product features, lighter approval processes or specific reporting requirements for microinsurance products. Typically, the practice is that mobile insurance would follow the same route. However, there are of course big differences between mobile insurance products and other microinsurance products, making it important that suitable regulation is developed.

Who is in charge of recourse in case things go wrong, or when there is a dispute? In Ghana, where there are currently over 2.7 million policies, this is a huge challenge. Renata de Leers explained that the MNO or TSP generally assume 'ownership' over the client data. In case of a dispute, the insurance company cannot verify in their own books whether the person has any cover with them, and the client does not know who to turn to. Even if the client manages to get in touch with the insurer, the insurance company does not have the correct information to interact with the client properly. There is thus a strong need to establish a security protocol in order to guarantee that the MNO and the TSP share client data with the insurer, since the insurer is the one that pays out the claims.

In Peru, mobile insurance is not allowed under the current legislation. The main concern is that a third party is involved that is not subject to any supervision (neither from the insurance side, nor from the telecommunications side).

? **How can supervisors control the potential risk arising from the involvement of third parties in the commercialisation process?** In terms of regulation it is important to consider the third party service provider and the MNO as distribution channels, while the insurance company should be responsible for providing the insurance. In Mexico, for instance, while the main distribution channels are agents, insurance products can also be sold by a legal personality if they meet the following criteria: the product has to be registered; the contracts with the agents have to be registered with the supervisory authority; and the contracts need to stipulate that the insurance company is ultimately responsible at any time. Although this does not provide the insurance supervisor with direct supervision over the agents, this type of legislation provides the supervisor with certain control mechanisms.

The CIMA region is in the process of developing guidelines on mobile insurance and there are some insurers in the CIMA region involved in pilot projects on mobile insurance.

? **Despite the loyalty products sounding like a free product, is someone not always paying the bill?** Renate de Leers explained that ‘free’ insurance is indeed never actually free. The MNO takes the strategic decision to reward good clients with insurance, which is paid for from the marketing budget. An MNO in this case thus accepts the costs of rewarding faithful clients with the hope of retaining their business in the future.

Annex 1: Risks and potential impact of strategic mobile insurance business model

The following table captures the key risks emerging from mobile insurance models and the potential impact that insurance supervisors need to manage.

	Risk Analysis	Potential Impact
Client Value Risk	• Subscribers may not be aware of the products (particularly in the case of loyalty/freemium products) – hence low claims frequency and low claims ratios; • Subscribers' family members may be even less aware of the products – hence few claims for subscriber deaths; • When aware, customers may not fully understand the product coverage and terms and conditions; • The insured sum is not sufficient compared to the cost incurred by customers (for example, when a customer has to go to hospital and the travel costs are not insured); • Customers are not given different enrolment options, or the premium payment method is unpopular; • Customer complaints and queries are not adequately handled (often due to the fact that there are so many stakeholders involved, and it is not clear who is responsible for what). • Claims are rejected due to a mismatch between the Policyholder's Reasonable Expectations (PRE) and the insurer's guidelines; • The claims process is complicated, burdensome and lengthy.	• Demand falls; • MNOs do not gain value through offering insurance products; • Product discontinued; • Disputes with insurer; • Reputation affected; • Can affect market confidence in insurance and also affect financial inclusion.
Prudential Insurer's Risk	• Often the premiums the insurer receives from the MNO are actuarially not justifiable. However, this does generally not lead to underwriting losses for the insurer, because customer awareness is so low, leading to low claims ratio; • The insurer does not meet the liabilities; • Delay in premium collection (often due to the involvement of many different stakeholders, in this case the TSP and the insurer); • Adverse selection and fraud; • Expenses (either operational or fixed) are higher than expected; • Volumes are lower or higher than expected and the mix is different than expected; • There is inadequate reinsurance; • There are inadequate reserves and capital.	• Insurer cannot meet liabilities; • Product has to be re-priced or re-designed, causing reduction in volumes/ confidence; • Insurer cancels product; • Insurer does not innovate further; • (Re) insurer appetite in sector reduces.

Distribution Channel Risk	• The premium for a loyalty product has to be very low for it to make a good business case for the MNO. This is generally not actuarially justifiable, and dependent on under-reporting of claims; • The actual business case is not as strong as expected. • The MNO's reputation may be affected due to disputes over the product; • There is no exit plan or transition plan, or it does not function properly; • The MNO pays a disproportionately high percentage of the expenses of the product (such as start-up and operational costs); • There is a loss of data if the product is cancelled; • The MNO does not fully understand the implications of changing or cancelling insurance products, since it perceives insurance as a marketing tool, rather than a relatively long-term financial service.	• Product discontinued/ cancelled; • Product transitioned (e.g. loyalty to paid) but without customers being aware; • Insurer's business risk due to disruption of product; • Lack of access to data in event of product cancellation.
Marketing Risks	• Product not explained properly; • Sales staff not trained sufficiently; • Customer awareness low during transition from loyalty to paid products; • Marketing literature unclear or misleading; • Marketing expenses higher than expected.	• Disputes over products; • Bad reputation of stakeholders and insurance overall; • Products are cancelled due to disputes and lack of business impact for MNOs.
Legal Risks	• Recourse to settling disputes unclear in case of a dispute; • Data protection; • Policy documentation; • Use of airtime for payment of premium.	• Best practices not followed in absence of supervision; • Mismatch of accountability e.g. MNOs perceived as 'owning' products but not regulated; • Customer data misused; • Disputes not resolved clearly.
Systems Risk	• Systems are unable to scale up; • Data is no longer available if the partnership collapses; • Technological breakdown; • Data not maintained properly, or data errors	• Data not available; • Covariate risks with technological breakdown; • Systems unable to keep up with scale-up; • Systems errors can lead to gap/discontinuity of coverage.
Third Party Default Risk	• High dependency of the insurance company on the partners (TSP, bank, MNO). • Limited capability of partners to manage the business on behalf of the insurance company; • Lack of capacity/understanding among local insurers.	• Product exposed to inefficiency of TSP; • Insurer does not develop capacity for innovation; • Product affected by exit of or change in strategy of TSP.

Access to Insurance Initiative
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Approaches to Insurance
Gesellschaft für Internationale
Zusammenarbeit (GIZ) GmbH
Dag-Hammarskjöld-Weg 1-5
65760 Eschborn, Germany

Telephone: +49 61 96 79-1362
Fax: +49 61 96 79-80 1362
E-mail: secretariat@a2ii.org
Internet: www.a2ii.org

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Hosted by: