

MOBILE PHONES AND MICROINSURANCE

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Insurers are using mobile phones to address two main challenges facing the microinsurance sector: increasing efficiency and reaching scale. This brief is based on a review of literature and of 13 insurance schemes that are using mobile phones to fulfill either of these objectives. The review reveals good practices and lessons for insurers to consider when implementing mobile phone based microinsurance schemes.

INCREASING EFFICIENCY ACROSS THE MICROINSURANCE VALUE CHAIN

By leveraging mobile phone infrastructure insurers have made processes more efficient across the insurance value chain. They have reduced turnaround times for enrollment premium collection, claims processing; lowered costs; and bridged geographical distances.

FIGURE 1. Leveraging mobile phone infrastructure

	Product design 	Sales 	Enrolment 	Premium collection 	Policy admin 	Claims processing 	Value added services 	Data analysis and management 
Client's transactional data Airtime, mobile money	✓	✓	✓					✓
Retail sales and distribution Airtime dealers, mobile money agents		✓	✓			✓		
Communication channels Voice, SMS, USSD		✓	✓		✓	✓	✓	✓
Payment mechanisms Pre-and post-paid airtime, mobile money				✓		✓		
Brand		✓						

¹ This brief is excerpted from the Microinsurance Paper no. 26. The paper is available at <http://www.ilo.org/microinsurance>. Pranav Prashad and Aparna Dalal are part of the ILO's Microinsurance Innovation Facility. David Saunders is part of the Centre for Financial Regulation and Inclusion (Centri).

Mobile phone infrastructure is more than just the mobile phone. It consists of all the components that are used to deliver mobile services. Many of these components can be leveraged when delivering insurance (figure 1). For instance, the client's mobile phone transaction history can be used by insurers in product design and to target clients based on usage. Further, the extensive network of mobile phone retail agents can be used to enrol clients and collect premiums.

ENABLING SCALE: PARTNERING WITH MOBILE NETWORK OPERATORS

Mobile network operators (MNOs) provide a distribution channel with immense potential to provide insurance to the vast pool of mobile phone subscribers, the majority of whom do not have insurance. In Africa alone, the 44.4 million lives and properties covered by insurance pale in comparison to the more than 600 million mobile phone subscribers.

In addition to offering access to a large client base, MNOs also offer an established network of distribution points to interact with these clients. In many developing countries, MNOs are highly visible and accessible to people of all income levels, with branded shops,

corner stores selling prepaid airtime, and umbrella-cart service stops.

From an MNO's perspective, adding insurance to its product portfolio serves multiple purposes. First, insurance has the potential to provide another revenue stream, received either as commission (in a typical distribution partnership) or through profit-sharing. Perhaps more importantly, insurance helps MNOs differentiate themselves from competitors and attract and retain clients. Insurance can also be used to motivate clients to spend more on airtime in order to retain their cover.

LESSONS FOR INSURERS

Understand why and how you want to leverage mobile phones. The mobile phone is a powerful tool to access both current and potential clients; however, it should not be seen as the "silver bullet" for microinsurance. Mobile phones can be used for multiple purposes, including for enrolment, policy administration, premium payment, and claims.

Some providers also offer value-added services through mobile phones to make products tangible and to provide more frequent benefits. For example, Weather Risk Management Services Ltd. (WRMS) in India provides various value-added services such as



Taking photograph for mobile enrollment

weather forecasts and alerts, and crop market prices to clients via mobile phones as part of its insurance package.

Match products to the maturity of the market. Insurance can be offered as a free product, a paid-for product, or a combination of the two. Insurers and MNOs need to gauge the maturity of their insurance market, assess customers' perceptions and understanding of insurance, and adapt products accordingly (Figure 2).

In markets with limited insurance experience, it makes sense to start with loyalty-based schemes that include a free insurance product embedded in the MNO's core service. As markets mature and customers gain experience with insurance, a "freemium" product that is still loyalty-based, but offers clients the opportunity to buy additional coverage, can be considered. Stand-alone, voluntary products that cover various risks and are paid for by the client are most appropriate in mature insurance markets with a more developed insurance culture.

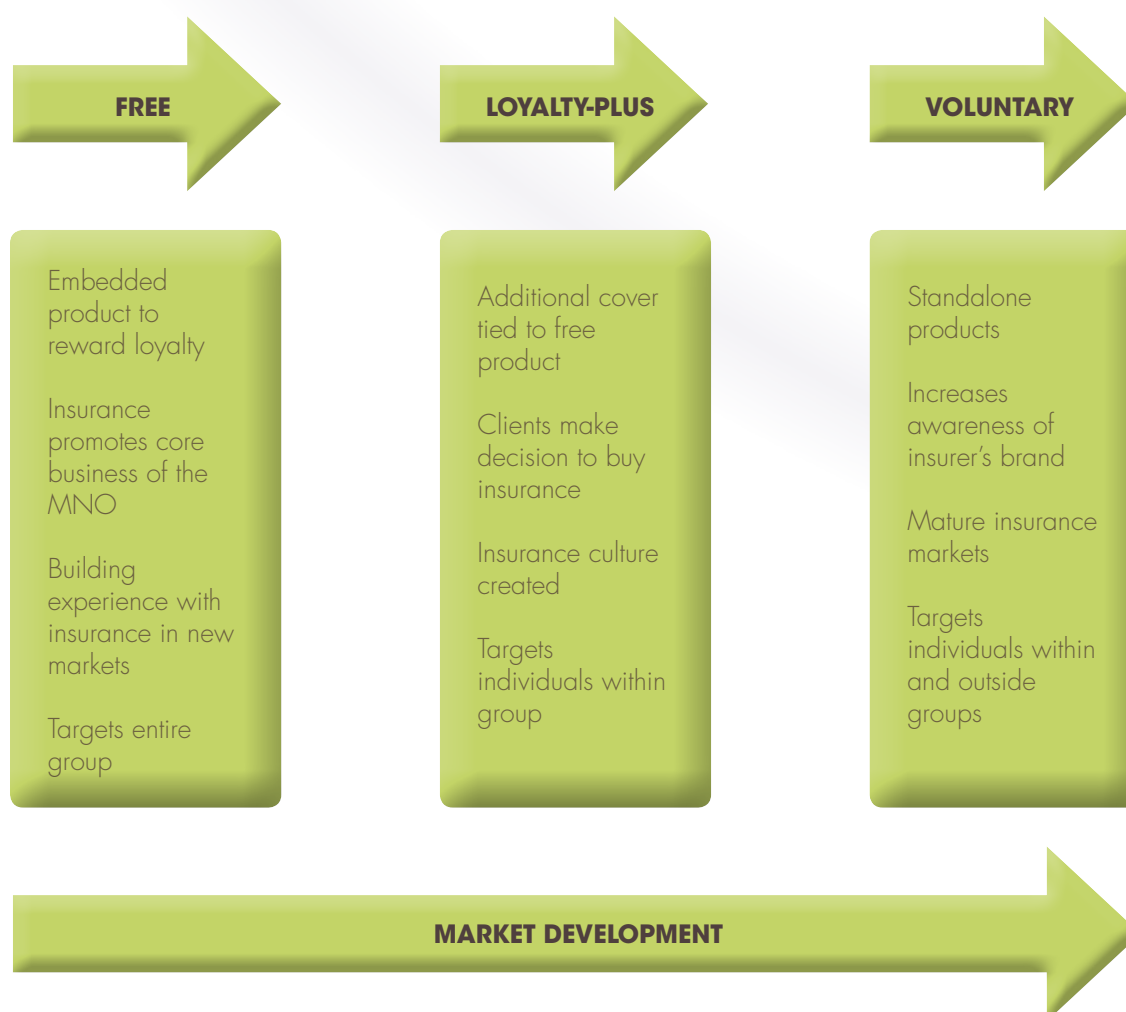
Segment client data. MNOs' data on client mobile phone use, demographics, etc. provide an opportunity for insurers to design customized products that target specific populations. Improvements in processes to share data seamlessly between MNOs and insurers are needed.

Agent-less enrolment models cost less, but face challenges.

The cost of agents comprises a large percentage of overall distribution costs; an agent-less model can therefore translate into significant savings. However, an agent, who describes a product and assists during the enrolment process, may provide needed information and improve enhanced customer understanding. When using an agent-less model it is important that insurers monitor customers' knowledge about the product and benefits and address any gaps in understanding.

YuMobile in Kenya offers YuCover, an "opt-in" life insurance product, sold under an agent-less model. YuMobile estimated that removing the agent from the

FIGURE 2. Product evolution stages



sales process reduced the cost of enrolment from US\$ 1.35 per policy to US\$ 0.45 per policy, and allowed YuMobile to break even in five months. However, YuMobile discovered that customers did not completely understand the disability benefit that was provided as part of the life insurance policy, leading to many rejected claims and much dissatisfaction. YuMobile's plans to improve customer understanding under an agent-less sales model are described in Box 1.

BOX 1. Testing clients' understanding of the YuCover product

YuMobile contacts customers regularly to test their understanding of its insurance product and processes. YuMobile found that 46 per cent of customers failed to enrol correctly because they did not understand the enrolment process, while 35 per cent failed to enrol because of technical difficulties. Almost 87 per cent did not fully understand the product, especially the disability benefits. Clients wanted to claim for small injuries and short-term disabilities, though the product only covered permanent disability. This misunderstanding led to dissatisfaction as customers felt claims were being unfairly rejected. To address these problems, YuMobile is considering eliminating the confusing disability benefit. It also intends to provide a voice education option accessible through the phone, as well as automated and manual welcome calls to new registrants. In addition, it is considering introducing tests administered via SMS to check clients' understanding of the product. YuMobile would analyse responses, and call customers who show insufficient understanding of the product. Making calls only to less informed clients will help optimize the call centre agents' time.

Leverage mobile phones to pay claims quickly.

Establishing a track record of paying claims quickly and fairly is critical to build trust and stimulate demand. Mobile phones are being used to facilitate speedy claims settlement, as shown by the Kilimo Salama example in Box 2.

BOX 2. Efficient claims settlement

The Kilimo Salama project in Kenya is a partnership between the insurer UAP and the Syngenta Foundation. The scheme has enlisted local agro-dealers to distribute a crop insurance product. At the time of purchase, farmers choose the automated weather station nearest to their land and their policy is based on the parameters recorded at that weather station. Farmers' phone numbers are collected at the time of the policy purchase.

When the weather event triggers a claim (based on weather station data), all farmers' phone numbers that are linked to that weather station receive a payout directly via M-Pesa. Farmers receive a confirmation of payment via SMS. If the farmer does not have a mobile phone, then the dealer through whom the insurance was purchased receives the payout and passes it on to the farmer. The dealer provides a paper receipt to the insurer to document the payout to the farmer.



Mobile phone kiosk in Ghana

Weigh the benefits of airtime vs. mobile money for premium payments. For schemes that include an MNO partner, premiums are typically paid through clients' airtime or through their mobile money accounts, often called "mobile wallets". There are advantages and disadvantages to both payment mechanisms. Mobile money transactions, like bank transactions, are usually not taxed, and therefore cheaper than payment through airtime deductions. However, not all customers have mobile money

accounts whereas airtime, being the core offering of the MNO, is available to and used by all customers.

Weigh the benefits of automatic premium deductions.

In many MNO-tied schemes, the premium is automatically deducted from the customer's airtime or mobile money balance. While this promotes persistency, clients do not need to actively decide to pay the premium and therefore may not be aware that they are enrolled (or that the premium payment

अब
कृषि
सम्बन्धित सूचना प्राप्त करें **मोबाइल** पर
और वो भी अपनी **क्षेत्रीय भाषा**
में

Weather Risk



- वर्तमान मौसम : 24 घंटे का तापमान, बारिश और आद्रता
- अगले 72 घंटे का तापमान, बारिश और आद्रता
- बाजार में आये उतार चढ़ाव और अपने निकट की मंडी के भाव
- कृषि से सम्बन्धित जानकारी और समाचार

मात्र
1.50 रुपये
प्रति दिन*

आप अपनी फसल से सम्बन्धित सवाल पूछने और अपनी समस्या का हल जानने के लिए हमारे कस्टमर केयर नम्बर पर भी कॉल कर सकते हैं

सेवा अवधि	दर (रुपये)
1 माह	50
2 माह	90
3 माह	120
6 माह	220
12 माह	400





वेदर रिस्क के कार्ड्स हमारे डीलर से लेकर अपने मोबाइल को रिचार्ज करवाएं और इन सभी सेवाओं का लाभ उठायें।



अधिक जानकारी के लिए
अपने नजदीकी डीलर से सम्पर्क करें।

नोट: (क) कृषि से सम्बन्धित सभी सूचनाओं को सुनिश्चित रूप से लेना। (ख) कृषि से सम्बन्धित सभी सूचनाओं को सुनिश्चित रूप से लेना। (ग) कृषि से सम्बन्धित सभी सूचनाओं को सुनिश्चित रूप से लेना। (घ) कृषि से सम्बन्धित सभी सूचनाओं को सुनिश्चित रूप से लेना। (ङ) कृषि से सम्बन्धित सभी सूचनाओं को सुनिश्चित रूप से लेना।

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was deducted from their account). Another drawback of scheduled, recurring payments is that people dislike the feeling that their balance is being “eaten” when they’re not looking – they may load their account to make a call and see part of the top-up immediately deducted. In comparison, by requiring clients to make an active decision to pay premiums, insurers can reinforce the idea of insurance in the client’s mind, but risk greater lapses as clients might forget to pay on time. The value of both options needs to be better understood, and the benefits of greater efficiency and lower lapses (resulting from automatic payments) need to be weighed against higher customer loyalty and value (resulting from greater understanding and active purchase decision).

Build brand recognition. Customers naturally associate insurance products offered through MNOs with the MNO and not the insurer. Leveraging the MNO’s brand in the initial phase of market development makes sense from a distribution standpoint. However, the insurer needs to find

ways to build brand recognition and be visible in the mind of the client to enable development of other distribution channels and products in the future.

CONCLUSION

Insurers are using mobile phones to make enrolment and claims processes more efficient, provide better customer care, and communicate better with customers. Insurers have partnered with MNOs and provided insurance products that have reached scale quickly. Loyalty-based products have had the most success initially. However, as insurers and MNOs gain experience and as markets mature and become more competitive, products are expected to evolve to offer voluntary options, target specific client segments, and provide value-added services. Insurers need to carefully design products and processes and pursue new partnerships in order to grasp the tremendous opportunity offered by mobile phones to efficiently provide valuable risk management services to all.

Housed at the International Labour Organization’s Social Finance Programme, the **Microinsurance Innovation Facility** seeks to increase the availability of quality insurance for the developing world’s low income families to help them guard against risk and overcome poverty. The Facility was launched in 2008 with generous support from the [Bill & Melinda Gates Foundation](#) to learn and promote how to extend better insurance to the working poor. Additional funding has gratefully been received from [several donors](#), including the [Z Zurich Foundation](#) and [AusAID](#). See more at www.ilo.org/microinsurance



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