

Challenges and opportunities in enhancing client value in insurance – the African experience with new technologies

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New technologies are rapidly accelerating access to financial services, particularly in the emerging markets. In the last couple of years, some African countries have experienced rapid growth in mobile network operator (MNO) driven insurance schemes. Technologies need to work both at the front end, i.e. the client interface, but also at the back-end where the sheer volume of micro policies can challenge administrative capacities. Technology is an enabler, however its impact on different members of the value chain needs to be fully understood by the service providing partners as well as the regulators. Weaknesses in the use of technology could potentially lead to a sub-optimal client experience.

Mobile phone-based distribution provides strong opportunities to lower costs and massively expand outreach, capitalising on the client's trust of the MNO's brand name. However, the power imbalance between MNOs and the insurer could present a threat for the partnership because the MNO's brand and financial powers can be immense, eclipsing the insurer almost entirely. These multi-stakeholder partnerships of mobile network operator, administrator and insurer are challenging to structure, regulate and oversee. The multiplicity of regulators in various jurisdictions (e.g. payment system, telecom) only adds to the complexity. In situations where MNOs act as policyholder and pay for the premium, they are the owner of the client relationship which could imply consumer protection risks such as lack of understanding of product features and misselling.

Client value means that products should deliver value in terms of being affordable whilst insuring important and relevant risks and having simple claims requirements. While it is important to efficiently deliver the product, the product needs to offer good value. Apart from the product, client value includes effective after-sales services such as efficient handling of claims and recourse mechanisms that work. From a consumer point of view, mobile insurance can provide value by simplified access, easy payment, and the confidence instilled by familiarity with the MNO brand.

“Technology is a great opportunity but a great threat as well.”

Israel Muchena, Hollard Insurance Mozambique

“Insurers are the core risk carriers but the other partners and actors do play the role of insurers in disguise, which is a regulatory concern.”

Luc Noubissi, Inter-African Conference for Insurance Markets (CIMA)

“Products’ front-end rides on the image of the MNO and its trust amongst the clients. Given this, right partnerships are everything in mobile insurance.”

Kimathi Githa Churi, Helix Digital Finance Institute, Kenya

Consumer protection issues need to be re-examined in the context of innovative distribution models which rely heavily on technology. Overall, the aim is real-time consumer protection, i.e. the client should be protected from the outset and not only once a claim occurs. Among the main issues are:

- The jurisdictional overlap of the various financial sector regulators, including the telecom regulator.
- In the emerging models, the MNO takes up the role of the group policy holder and also the intermediary for the end client, which can result in the client not being aware of his coverage and consequently, the claims ratio could be very low.
- In mobile distribution, communication is done via “SMS”, so ensuring that such communication is readily traceable and backed by “electronic data storage” are examples of features that must be in place.

KEY TAKE-AWAYS

FOR INSURERS

The value proposition in mobile insurance is clear for the insurer: access to new clients and massive scale, reliance on MNO brand benefits, lower costs, client persistency, and policy administration costs shared with the MNO.

MNO partnerships may have pitfalls so caution is required. Insurers need to structure the partnership agreement well with clear roles and responsibilities, focus on products that fit the criteria of “SUAVE” (suitable, understandable, affordable, valuable and efficient) and set an exit strategy. As the MNO brings the client relationship to the table and may pay for the group policy, the power balance in the partnership may be unequal.

Mobile insurance is suitable for areas with high penetration of mobile services. In rural areas however, network penetration may be low and unreliable. Rural outreach can often be better achieved by traditional intermediaries such as cooperatives or microfinance organisations.

FOR REGULATORS AND SUPERVISORS

Financial sector and telecommunication regulators need to cooperate, and jointly oversee MNO-driven multi-partner business models.

Supervisors need to look beyond products, i.e. at the claims requirements and recourse options that need to be in place for these kinds of products and business models.

Supervisors should review service or partnership agreements that form the basis of the various entities coming together to offer mobile insurance, including the nature of the legal relationships, the responsibilities pertaining to the parties involved, and possible exit scenarios.