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RESEARCH HIGHLIGHTS

Exploring the Future of Mobile-Based Insurance Products in Zambia

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Introduction

Formal financial inclusion in Zambia has increased significantly, from 22.2% of adults in 2009 to 37.9% of adults in 2015.¹ Uptake and usage of mobile money (MM) has been the biggest driver. Yet, insurance penetration is very low, with only 2.8% of adults using insurance products.² After a lack of awareness, the lack of efficient distribution channels is a major reason for low insurance uptake.

Providers of digital financial services (DFS) offer a distribution channel with significant potential for microinsurance products due to their large outreach and mass-market brand recognition as well as the high penetration of mobile phones and the increasing usage of MM and payment mechanisms for premiums and claims. Despite the potential for collaboration between DFS and insurance providers, there are no active mobile-based (m-) insurance products in Zambia.

In July 2017, the UN Capital Development Fund (UNCDF), in partnership with Financial Sector Deepening Zambia, commissioned a study to explore the role of DFS for m-insurance in Zambia. The study aimed to create a better understanding of previous

insurance products, reasons for failure, and recommendations for potential products and partnership models to support the re-launch of insurance via DFS. Additionally, it explored the viability of future m-insurance products in Zambia with both DFS and insurance providers acting as strategic partners.

UNCDF contracted Amarante Consulting to conduct the study, which included these steps: (1) desk research examining different business models and payment categories for m-insurance products, clarifying the roles of DFS and insurance providers as well as the business case and benefits for subscribers; (2) identification and categorization of previous and existing m-insurance products across Africa, providing context for analysing the Zambian experience; (3) identification, categorization and analysis of m-insurance products in Zambia through stakeholder interviews and review of existing product data, revealing reasons for product failures and challenges faced to achieve scale and profitability; and (4) readiness assessment of the Zambian market for future m-insurance products as well as recommendations for product types and criteria for success.

Methodology

The study used both desk-based (i.e., literature review) and on-site research (i.e., questionnaires and focus groups). The team interviewed 18 key stakeholders, including regulators, banks, microfinance institutions (MFIs), DFS providers, MM service providers, mobile network operators (MNOs), and insurance companies and brokers. The team, along with two MFIs, visited end users (e.g., small-scale traders and farmers) of m-insurance products in rural, peri-urban and urban areas and conducted four focus-group discussions with over 50 end users. The team collected statistics and actuarial data and analysed them for the design and pricing of prototype m-insurance products. In a second phase of interviews, these prototype products were tested and discussed with UNCDF, DFS providers and insurance providers, with positive feedback from all stakeholders.

Findings

Business models

M-insurance products can follow a strategic or transactional model:

Strategic:

The DFS provider intentionally uses insurance products sold through its channel/service to drive uptake and usage of its own service (e.g., giving the customer 30-day health insurance coverage upon sign-up and first usage of the service). An example of a strategic product is the loyalty product launched by Airtel in Zambia.³

Transactional:

The DFS provider plays a purely operational role (e.g., providing data that support product design, pricing, marketing and/or sales). It also provides a channel through which enrolment, premium collection, policy administration, claims settlement and delivery of value-added services are handled. An example of a transactional product is the MTN DriveSure product in Zambia.⁴

¹ Financial Sector Deepening Zambia, 'FinScope 2015' (Lusaka, 2016).

² Ibid.

³ Airtel, 'Airtel Networks Zambia PLC provides free life insurance for millions of customers, in partnership with MicroEnsure and Focus Insurance,' 11 February 2014.

Available from <http://africa.airtel.com/wps/wcm/connect/africarevamp/zambia/home/about/press-releases/press-releases/february-11-2014>

⁴ Tech Trends, 'MTN and Hollard partner on vehicle insurance, DriveSure,' 7 October 2014. Available from <http://www.tech trends.co.zm/mtn-hollard-partner-vehicle-insurance-drivesure/>

Payment mechanisms

Different premium payment options are possible:



1. **Loyalty**, where the DFS provider pays the premium on behalf of the customer.
2. **Paid**, where the customer pays the premium through MM or airtime deduction.
3. **Freemium**, which is a combination of loyalty and paid approaches, but the customer is not initially charged unless he/she opts to purchase additional features.

Lessons learned from m-insurance products in Africa and Zambia

Many loyalty products in Africa achieved significant scale in the early 2000s. However, numerous products were discontinued or phased out, which usually led many subscribers (most of whom had insurance for the very first time) to lose their insurance coverage overnight due to strategic decisions by MNOs, insurance companies and technical service providers (TSPs).⁵ For example, in Zambia, the Airtel loyalty product reached ~1.7 million people at launch but was cancelled after 12 months; in Zimbabwe and Namibia, EcoLife and LEO launched loyalty products that covered 20% and 15% of their respective populations but were cancelled soon afterward.⁶ The section below describes reasons for these results.

Between 2014 and 2016, four m-insurance products launched in Zambia, linked to both airtime and MM, though they experienced several key challenges:



Very low product awareness due to limited marketing efforts, with many customers reporting they were unaware they were insured or what the coverage entitled them.



This challenge arose because the partnership between the insurance provider and DFS provider was neither well defined nor comprehensive.



Extremely few claims due to very low product awareness, with most customers not making any claims, and sometimes due to unclear claim processes.



This challenge occurred due to ineffective marketing of the product, and since the product was free for subscribers, a number of customers did not know that they were insured and hence did not make any claims.



Weak business case, with many benefits that were expected by all parties not being realized and leading to product cancellation.



The MNOs did not experience the expected increase in usage since the vast majority of subscribers were not aware of the insurance coverage. Hence, the behaviour of these subscribers did not change as per the expectations of the MNOs.



Poor clarity around different stakeholders' responsibilities for sales, marketing, promotion and administration.



This challenge occurred due to partnership issues and also due to overdependence on the MNOs for the sales and marketing functions of the insurance products.



Unsuitable products in terms of coverage level and concentration risk, with MNOs, insurance providers and TSPs.



The products were designed mostly based on discussions between the MNO, insurance provider and TSP rather than on feedback from the subscribers. In practice, this meant that the products developed did not always align with the needs of the subscribers and placed greater risk on the MNOs in the event that the products were canceled.

Despite these challenges, m-insurance achieved some key successes:



Many loyalty products reached unprecedented scale due to vast outreach and efficiencies of collaboration with MNOs. For example, in Zambia, the loyalty product with Airtel reached ~1.7 million subscribers overnight because it was automatically bundled with airtime. In Ghana, a loyalty product with Tigo achieved significant scale from 2013 to 2015 and also led to a significant proportion of users converting to a paid product over time.



Products were cheap and cost-effective for end users since they benefited from economies of scale and stronger negotiating power of MNOs and TSPs.



End users gained access to free services, in the case of loyalty products, that enabled them to experience and benefit from insurance without paying a premium, leading to an overall increase in customer awareness of insurance in the market.



'Below-the-line' (direct) marketing (i.e., insurance or service provider uses field staff to generate awareness and understanding of the m-insurance product) led to significantly higher product awareness and uptake than 'above-the-line' marketing (i.e. MNO conducts most marketing through its TV and radio advertising).

⁵ Technical Service Providers (TSPs) offer customized, one-on-one advice to service providers e.g. insurance and DFS providers. Available from <https://www.nrcs.usda.gov/wps/portal/nrcs/main/national/programs/technical/tsp/>. Accessed October 2018.

⁶ Jeremy Leach and Sandisiwe Ncube, 'Managing risk while facilitating innovation: The case of m-insurance in Tanzania' (n.p., FinMark Trust, 2014).

Paving the way for m-insurance products in Zambia

While DFS-linked insurance products in Zambia have largely suffered in the past, given strong customer uptake of DFS in the last few years,⁷ the time is ripe to learn from past lessons and test new customer-centred products that address customer preferences and needs, and represent a strong business case for DFS providers and are commercially viable over the long term for insurance providers.

The study revealed recommendations for improved provision and adoption of DFS-linked insurance products:

Adopt a Silicon Valley style, human-centred approach to product development.⁸ An iterative testing process would go a long way towards ensuring that future products meet target customers' needs and wishes. Most previous m-insurance products have not applied this approach.

Identify and engage the relevant policymakers/regulators early and often. The regulation of m-insurance products is relevant for the insurance regulator, mobile regulator and central bank. Consequently, it is important to engage with the different regulators at an early stage in order to have a coordinated regulatory environment, where there is sufficient consumer protection and risk mitigation while also allowing insurance companies and DFS providers to develop and implement innovative products.

Identify use cases beyond health and life insurance, exploring insurance products for agriculture (see infographic on page 4),⁹ business interruption and even fire. Earlier products have usually only provided generic funeral, accident and (sometimes) hospitalization coverage.

Explore digital channels as payment channels to support premium collection, claim payments or product promotion. In general, insurance companies have not leveraged digital channels for these key insurance processes as much as possible, forgoing potentially large cost savings.

Use improved marketing strategies that address meaningful awareness¹⁰ (i.e., how a given product is relevant to customers' situation) to increase uptake and active usage of m-insurance products. For instance, both insurers and service providers could use agents and staff to actively promote and explain products in public spaces and with aggregators/apex bodies. Most loyalty products have only been marketed by MNOs through advertisements. Experience has shown globally that using a 'high-touch' approach has been more successful in helping staff expand customer awareness (e.g., awareness-raising by BIMA agents in Ghana led to significantly more claims of Tigo m-insurance).

Structure products to present a compelling, sustainable business case for DFS providers and insurance providers. The business case may also change over time, and insurers need to revise and

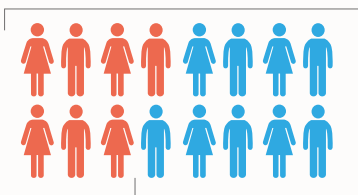
restructure their products so that they still make business sense for DFS providers. Many loyalty products have been cancelled when the original business case (e.g., increased average revenue per user) was not realized. Instead of making a drastic decision, it would have been more prudent to restructure to better align the product with another key business metric for the MNO and for the insurance provider (e.g., increased MM client acquisitions or reduced churn among customers with insurance).

Consider other strategic partners for m-insurance products. For instance, government partnerships whereby e-payment systems are used for paying farming input subsidies or making cash transfers can be leveraged to integrate m-insurance products (e.g., Weather Index Insurance launched by the Ministry of Agriculture in Zambia insured ~1 million smallholders in the 2017/2018 season).

Snapshot of the Zambian m-insurance landscape

Population

16.7 million



9.1 million

Adult population



80%

Mobile phone penetration



3%

Percentage of adults with insurance



24%

Percentage of adults with an active DFS account



88%

Percentage of uninsured adults who cited 'lack of awareness' as their reason for not having insurance

Sources: FinScope, 2015; UNCDF, 2018; ZICTA, 2018.

⁷ Nandini Harihareswara and others, 'State of the Digital Financial Services Market, 2016: Results from the UNCDF-MM4P Annual Provider Survey' (Lusaka, UNCDF-MM4P, 2017). Available from <http://www.uncdf.org/article/2776/state-digital-financial-services-market-zambia-2016>

⁸ Nandini Harihareswara and Camilla Zanzanini, 'Product design tools to boost customer uptake: Human-centered design and iteration in digital financial services in Zambia,' 10 January 2017. Available from <http://www.uncdf.org/article/2488/product-design-tools-boost-customer-uptake>









⁹ World Bank, 'Kenyan Farmers to Benefit from Innovative Insurance Program,' 12 March 2016.

Available from <http://www.worldbank.org/en/news/press-release/2016/03/12/kenyan-farmers-to-benefit-from-innovative-insurance-program>

¹⁰ UNCDF-MM4P, 'Meaningful awareness: Zambians moving together towards a cash-lite economy,' 2 May 2017.

Available from <https://www.linkedin.com/pulse/meaningful-awareness-zambians-moving-together-towards-for-the-poor-1/>

Snapshot of previous m-insurance products in Zambia

Product name	MNO	Insurance provider	Product type	Insurance type
DriveSure		Hollard	Premium paid via MM	 Vehicle
EduSure		Hollard	Premium paid via MM	 Life (for education of insured's children)
Life After Life		Sanlam Life	Premium paid via MM	 Funeral
N/A		African Life Assurance	Loyalty (airtime)	 Life

The prototype products presented below were developed and tested by UNCDF and Amarante and discussed with DFS providers and insurance providers, with positive reviews from all stakeholders.

Snapshot of potential m-insurance products in Zambia

Product type	Events covered	Most suitable DFS provider types	Example of enrollment type ^a	Value proposition
 Weather index insurance (WII)	Drought and excessive rainfall (production risks)	Banks ----- MFIs	Mandatory and credit-linked, whereby the product is bundled with credit and sold on a compulsory basis to the customer; the product reduces the credit risk exposure for DFS providers as well as the burden of repaying the loan for customers	WII is a type of insurance that pays farmers in the event of a drought or excessive rainfall that affects their harvest. WII is a suitable product for DFS providers (e.g., banks and MFIs) that are lending to small-scale farmers through digital and non-digital channels as it 'derisks' the high credit risk involved in crop loan products. WII can also be bundled with solar home systems, which are being disbursed on credit by some DFS providers in rural areas.
 Hospital cash insurance	Hospital stays (usually ≥ 2 nights)	MNOs	Loyalty based and free on mandatory basis, and paid based on whether the person is an MM customer	A hospital-cash ^b product linked to DFS providers for both urban and rural clients can help bridge the gap in health insurance for the mass market in Zambia. Health insurance is also a type of product that clients would value and where the benefits are more tangible than funeral or credit life insurance.
 Funeral and family insurance	Death (natural or accidental) and death of family members (spouse or children)	MNOs	Mandatory and credit linked	Funeral and family insurance is a relatively simple but valuable insurance product that can easily be delivered to the mass market via DFS providers. This product enables the policyholder and his/her family to cover the cost of a funeral and other expenses in the event of an untimely death in the family.

^a Example enrollment options are listed but variations are possible (e.g., hospital cash insurance product can also be offered on a credit-linked basis).

^b Hospital cash means that, if a patient stays in the hospital for 2 or more days, they get cash back from the insurance provider.

