



Mobile Insurance Distribution In Emerging Markets

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Mobile insurance, Emerging Markets, Mobile phone, Bank account

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ABSTRACT *Mobile technology has expanded the reach of insurance globally, including in the emerging markets. While 80% of the population in emerging markets do not have a bank account, 70% do have access to a mobile phone. This has allowed insurers to reach people who have never before had insurance. The distribution of insurance via mobile devices in emerging markets has grown exponentially in the last decade. As of February 2015, the two largest technology service providers (TSPs) for mobile micro insurance had reached approximately 28 million customers combined. This paper focuses on emerging markets in mobile insurance.*

INTRODUCTION:

Mobile distribution allows insurers to reach customers who have never before had insurance. Mobile technology has expanded the reach of insurance globally, including in the emerging markets. While 80% of the population in emerging markets do not have a bank account, 70% do have access to a mobile phone. This has allowed insurers to reach people who have never before had insurance. There are more than 25 million mobile insurance customers using basic mobile devices. The distribution of insurance via mobile devices in emerging markets has grown exponentially in the last decade.

As of February 2015, the two largest technology service providers (TSPs) for mobile micro insurance had reached approximately 28 million customers combined. Micro insurance premiums grew by 10–12% in emerging markets during 2010 to 2012, with mobile the fastest growing channel. Accenture predicts that global smart phone connections will grow by double digits annually to 2020, and that emerging market connections will dominate. In conjunction, micro insurance is forecast to grow by 19% to 2017. Sub-Saharan Africa is the largest mobile micro insurance market. Sub-Saharan Africa has taken the lead in insurance distribution via basic mobile phones. The number of insurance products distributed via mobile in the emerging markets is estimated to be over 100, with 54% in Sub-Saharan Africa, 23% in South Asia, 20% in East Asia and 4% in Latin America. To date, the majority of mobile micro insurance has focused on life and health products, particularly basic term life insurance and hospital cash. Pilot programs are also exploring the distribution of agriculture and some property insurance via mobile technology.

FUNCTIONS OF MOBILE FOR INSURANCE

- Mobile communication enables end-to-end distribution
- Insurers can use mobile to send information to potential and existing customers at lower cost
- Insurers can spot-check customer education with calls and texts.
- Country-specific regulations determine how premiums can be collected.
- Customers can pay premiums directly via mobile money platforms.
- Gathering data Via mobile can improve underwriting:

- Mobile data aids claims verification and payment
- Mobile Biometric identification can also help verify claims
- Mobile technology can be critical for post-disaster payments

1.MOBILE COMMUNICATION ENABLES END-TO-END DISTRIBUTION:

Advances in technology now allow the capability of end-to-end (ie, through all points of contact between insurers and customers) distribution via mobile, especially for relatively simple and standardized products. The main benefits of mobile are in reducing distribution costs, for example by promoting customer education, and by improving risk assessment of and claims verification for remote customers. Key challenges of mobile insurance are consumer protection and upholding the insurer-customer relationship through remote communications.

2. INSURERS CAN SPOT-CHECK CUSTOMER EDUCATION WITH CALLS AND TEXTS.

With mobile data collection, insurers can also monitor the quality of their agent communications. For instance, the mobile micro insurance intermediary Bima checks that each agent has correctly communicated with their customers by calling 5% of an agent's clients to verify that the customers can correctly identify three points: the premiums they are paying, the amount of coverage they have, and how to make a claim. According to customer surveys, 84% of Bima customers know how to make a claim and 71% know exactly how much they are paying for their coverage. Using these insights, Bima is able to continually refine its agent training programme and marketing plans to better communicate with customers.

3. COLLECTING PREMIUMS

Mobile functions can be used depends on regulatory frameworks. For example, regulators in many countries do not permit the use of electronic signatures, requiring instead that mobile users who accept a policy go to a branch to sign in person. Yet in other countries (eg, South Africa), consumers who make an agreement over the phone are thereby making a binding contract.

4.CUSTOMERS CAN PAY PREMIUMS DIRECTLY VIA MO-

BILE MONEY PLATFORMS:

Mobile money platforms such as M-PESA in Kenya provide a virtual payment system usable even by those who do not have a formal bank account. The rate of mobile money deployments in emerging markets has grown rapidly in the past five years (see Figure 1). With mobile money, payments can be transacted by text and insurers can interact directly with customers. The majority of mobile money platforms are

in Sub-Saharan Africa. In Kenya, 93% of the adult population are now registered users of M-PESA, and 60% (more than 11.6 million people) actively use the system for money transfers, bill payments and other financial transactions. In many other countries, however, the platforms do not exist or are not permitted by regulators due to concerns about inadequate oversight.

5. GATHERING DATA VIA MOBILE CAN IMPROVE UNDERWRITING:

Mobile networks can provide vast amounts of data which insurers can use to improve underwriting. In South Africa, insurers are already looking at data from wearable devices in combination with other financial and medical test data to improve risk-adjusted pricing. Wellness programs from insurers, such as Momentum's Multiply or Discovery's Vitality, are leading the way globally in the use of mobile data collection for life and health underwriting and pricing. For example, exercise data captured through a wearable device (eg, Fitbit, Apple Watch) can award an insured wellness "points" that directly correspond to premium rate reductions. As wearable device technology develops, such data will be more robustly verified allowing insurers to better match behavioral data with claims experience.

6. MOBILE DATA AIDS CLAIMS VERIFICATION AND PAYMENT:

With mobile data collection, insurers can track potential claims and speed claims verification and processing, vastly reducing the headcount required and so too the cost of claims processing. Rapid payment is essential for low-income consumers who may not have cash on hand to front costs, especially for popular products such as hospital cash or funeral insurance. One leading mobile insurer aims to require just one verification document per claim, accepted via mobile scan, to encourage remote customers to submit claims promptly. Where regulations allow, claim payments can also be made via mobile, for example through mobile money.

7. MOBILE BIOMETRIC IDENTIFICATION CAN ALSO HELP VERIFY CLAIMS:

Mobile biometric technology can also be used to identify policyholders. For example in India, the financial services company FINO has used biometric identification to verify claimant identity, and IFFCO-Tokio has used biometric tags for cattle to reduce fraud in livestock insurance. Biometric identification has also been used to increase speed and reduce graft in distributing natural disaster relief. As technology advances, a combination of fingerprinting, iris scans and voice recognition through consumer mobile devices are expected to become reliable and widespread.

8. MOBILE TECHNOLOGY CAN BE CRITICAL FOR POST-DISASTER PAYMENTS:

Mobile technologies can be especially critical for distributing insurance in post-disaster situations. Even when transportation interruptions do not allow assessors to visit

damaged areas, policyholders can submit virtual documentation immediately to begin claims processing, increasing the speed of post-disaster relief and rebuilding. In emerging markets such as Pakistan, mobile biometric identification cards have been used to make direct payments to individuals affected by natural disasters.

MARKET STRUCTURE OF MOBILE INSURANCE:

Distribution Models
Business models

DISTRIBUTION MODELS:

Mobile insurance has grown through several different types of distribution models, including direct distribution by insurer-owned technology platforms, distribution through a retail point-of-sale and, most commonly, intermediation through technology service providers (TSPs). Three key criteria for successful distribution partnerships are good brand reputation, the capacity to collect payments, and frequent customer interactions that allow collection of small premium amounts.

Mobile micro insurance has been sold through partnerships with companies in other sectors that already have close contact with potential customers, such as mobile network operators, pharmacies or agricultural input companies. In Sub-Saharan Africa, the most prominent partnerships have been between mobile operators and insurers, facilitated by third-party TSPs. The insurers provide the licenses and capital required, and the third-party TSPs offer the technical infrastructure, product design and underwriting customized to the new market. In some cases, the third parties provide a full agent network also. Mobile network operators provide a trusted brand and customer interface for mobile communications

BUSINESS MODELS:

Marketing insurance to first-time and potentially low-income customers is challenging. Several programs began by providing free (or 'embedded') insurance, with the hope that first-timers would recognize the value of insurance and move to paying premiums at a later stage. For instance, mobile network operators pay a few cents of premiums on behalf of each customer who consistently tops up mobile credit on a monthly basis. For mobile operators, such customer loyalty rewards could be a competitive advantage in a market where customers switch SIM cards regularly to take advantage of short-term promotions. According to Micro Ensure, on average 25% of its customers have moved from embedded to paid premium products. In the case of Ghana, Bima has converted 90% of customers from free to paid and since 2013, Bima enrolls all new subscribers as paying customers.

MOBILE BANKING INSURANCE ISSUES:

Mobile technology is key to increasing insurance penetration in the emerging markets, where many potential customers have mobile phones but are not yet part of the formal financial system. Insurers face a big risk of losing relevance in this market. The leading TSPs have essentially taken over insurance functions such as product design, underwriting, policy administration and claims, and use local insurers mainly for licensing and capital requirements. Mobile network operators have retained customer data through airtime transactions. Companies with a large amount of customer data may also enter the market. For example, Vodacom and Google have obtained insurance licenses in South Africa and the US, respectively.

Meanwhile, as in developed markets, remote distribution typically means greater product commoditization. This encourages insurers to find new ways to build customer relationships and loyalty through remote communications. Exclusivity can be a problem in markets where there is only one intermediary partnered exclusively with one mobile network operator. In this scenario, users of other mobile networks can remain without access to insurance. At present, the mobile insurance markets in most countries are controlled by a dominant exclusive partnership. This offers scope for the emergence of new competition.

CONCLUSION:

The rapid growth of smart phone use in emerging markets could mean more convergence between micro- and traditional insurance in terms of digital distribution channels. Traditional insurance products may even start to copy some of the technical innovations in micro insurance. However, there are questions around whether micro insurance should be separately regulated, and whether it should be a separate operational function within insurers or be integrated into each traditional function

There is a crucial tradeoff between the experimentation required to innovate and the checks necessary for consumer protection with new products. Should mobile micro insurance products be unable to pay claims, the reputational damage could have long-lasting effects on the creation of this new market. Insurers in these markets must pro-actively inform consumers about the claims process, use data on claims patterns to prevent mis-selling and maintain underwriting discipline.

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