Regulating m-insurance in Zimbabwe: managing risk while facilitating innovation

Summary Note[1]

What is m-insurance?

It is important to define and understand m-insurance before unpacking the regulatory risks associated with it. Simply defined, m-insurance is insurance whose sale and/or administration and payment is facilitated by a mobile phone. There are three dominant m-insurance models currently on the market, characterised by their mode of payment: loyalty based m-insurance model, airtime deduction m-insurance model, and the mobile money m-insurance model.

What are the potential benefits and risks of m-insurance?

M-insurance has gained significant attention in recent years due to its rapid growth in African and Asian markets and its potential to grow inclusive insurance markets[2]. Over 70 m-insurance schemes have been launched globally across 15 countries (CGAP 2014 & BFA internal research), with one initiative winning an award from the insurance supervisor for its innovation and value to the consumer (Tigo, Ghana). On the other end of the spectrum, however, there has been one dramatic failure[3] (EcoLife, Zimbabwe), in which 20% of the adult population was impacted overnight due to the immediate cancellation of the product.

What lessons can be learnt from this experience?

Whilst failures of financial services companies are an inherent risk of any financial system, this failure of an m-insurance scheme highlights the critical need to balance the sometimes competing financial policy objectives of financial inclusion (of which m-insurance could be a powerful driver), financial stability, integrity, and consumer protection (also known as 'ISIP'). On the one hand, there is a desire to encourage innovative new

[1] For further information, please see the full report prepared by Jeremy Leach (Bankable Frontiers Associates) and Sandisiwe Ncube (Cenfri), available at: http://www.finmark.org.za/wp-content/uploads/pubs/Rep_M_insurance_Zimbabwe_20142.pdf

[2] In recent years, there have been a number of m-insurance models that have entered the global market. These include MTN Ghana and Hollard's mi-Life product, Econet and FML's Ecolife product (Zimbabwe), CIC Kenya's CIC m-Bima product, ZONG and Adamjee Life's ZONG Insurance (Pakistan) and other such products across Africa and Asia.

[3] It is recognized that the closure of the EcoLife scheme was due to a contractual fall out between the parties rather than due to prudential reasons. However, due to its sudden end, and the impact on the market, we will use the term failure and cessation interchangeably.

delivery mechanisms to increase access to insurance, and on the other there is the imperative of maintaining trust and stability. The aim of this note is to learn lessons from the EcoLife m-insurance case and develop recommendations with the aim of protecting clients and ensuring positive synergies between financial inclusion and these other policy objectives in the m-insurance space.

Why should supervisors be concerned about m-insurance?

M-insurance has the potential for rapidly scaled distribution, and the potential to overcome market distrust of traditional insurance. On the other hand, MNO objectives are not necessarily aligned with that of insurers, leading to concerns around competition and sustainability. In addition, MNO-insurance partnerships lead to unique regulatory considerations, which can present challenges to insurance supervisors, including:

- **Power imbalance.** The MNOs dwarf many insurers in terms of capital and assets and often have powerful political connections, leaving the insurer (and supervisor) subject to pressure to conform to their views.

- **Multiple jurisdictions.** MNOs are regulated by telecommunication authorities and do not fall under the supervisory jurisdiction of insurance supervisors. Those offering mobile money services are sometimes additionally regulated by Central Bank rules. Adding insurance supervisors to the mix by requiring MNOs to register as insurance agents adds further complexity and cost of compliance.

- **MNO brand power and client ownership.** MNOs' understanding of their clients often puts them in a better position to act as disruptive innovators[4], as compared to traditional insurers. This means that the MNO brand will 'own' the client even though, legally, the relationship should be 'owned' by an insurer. This may cause client confusion around who the insurer is.

- **Premium incidence –** Depending on who pays the premium, it raises questions around the level of risk concerning the failure of the product and the underwriter's ability to deliver on their promise; and whether there should be a differential view on risk.

It is clear that the mobile phone has the potential to enhance financial inclusion in a significant way. Whilst the entrance of MNOs into the insurance industry is generally positive, m-insurance poses significant risk to the insurance market through the sheer scale these schemes can reach, should things go wrong. This potential for scale raises the need for the supervisor to set the rules upfront.

[4] The term 'disruptive innovation' was coined by Professor Clayton Christensen and "describes a process by which a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves up market, eventually displacing established competitors".

Indicative recommendations for the regulation of m-insurance

Define the m-insurance product. The m-insurance product should be appropriately defined in legislation. It is not intended that the supervisor has specific m-insurance regulation but that they define the nature of the product.

Clarify the policyholder. The policyholder needs to be determined, whether it is a group or individuals, as well as how the insured (in this case, the subscribers of the MNO) are covered.

Define the nature of the legal relationship and the responsibilities pertaining to all parties involved. Define the nature of the legal relationship and the responsibilities pertaining to all parties involved.

Determine whether premium incidence changes the risk profile. The premium incidence should be assessed to understand the parties involved and understand whether the regulation allows for the model, e.g. group policies or loyalty schemes.

Assess whether there are appropriate levels of disclosure. The m-insurance initiative needs to be assessed to ensure that the subsidiary policyholder has sufficient information to understand the product and their rights and obligations.

Clarify consumer recourse options available. The m-insurance initiative needs to be assessed to ensure that the subsidiary policyholder has sufficient information to understand the product and their rights and obligations.

If you fail, then fail well - creating a living will. It is important to ensure that a failure is managed well and limits the impact on the market – "if you fail, then fail well". Creating a 'living will' ex ante allows one to set the rules around failure in a way that manages the likelihood of a negative systemic impact (Leach, 2013).

In summary

M-insurance offers significant potential to increase access to insurance for the under and unserved populations. However, unlike traditional micro-credit which takes a long time to grow, the potential for scale in m-insurance can create systemic risk and therefore more focus should be placed on setting rules up front and closely observing these initiatives. Supervisors should be encouraged to find ways to support m-insurance models, while ensuring synergy between financial inclusion and a stable protected inclusive insurance market.

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