The Curious Case of Mobile Micro-insurance in South Africa: A View from Above and Below

Introduction

Micro-insurance coverage is on the rise in Africa. In 2015, total micro-insurance premiums written on the continent amounted to nearly $647 million USD, which is up from $387 million USD in 2011, a 60% increase over a four-year period (Microinsurance Network). Of the nearly 62 million lives insured by micro-insurance in Africa, South Africa alone accounts for more than half these lives, making it one of the world's largest micro-insurance markets. Empirically, this has led to an unlikely convergence between the private sector and the traditional development agenda, providing a unique opportunity to explore questions regarding the role of insurance companies in helping the poor address their vulnerabilities through the provision of financial services.

As might be expected, building profitable micro-insurance markets presents a number of challenges, especially the need to achieve scale, since the sustainability of insurance operations relies heavily upon building a sizable risk-pool. Fortunately, the advancement and proliferation of technology across the developing world, particularly mobile phones and its networks, have been a game-changer for many industries including micro-insurance. In South Africa, mobile penetration is deep; mobile phone subscriptions per capita stand at an impressive 1.47 (World Bank, 2014). To gain a foothold into the lower end of this market, South African insurance companies have partnered with mobile network operators (MNOs) to leverage their distribution networks and to gain access to low-income consumers. By overlaying their operations upon a mobile infrastructure, insurance companies have been able to generate efficiency gains across the entire micro-insurance value chain from product design, marketing and sales all the way to enrollment and claims administration (Téllez, 2012). From the MNO perspective, m-insurance is an appealing product insofar as it stimulates average revenue per user (ARPU) and reduces churn, i.e. increased loyalty/retention (ibid.). And for the end-client, efficiency gains translate into affordable premium rates that compare favorably to traditional micro-insurance products or even their informal sources of insurance coverage.

Given South Africa's established micro-insurance market and its excellent mobile penetration, the compelling business case for both insurance companies and MNOs propelled a flurry of early investment into m-insurance deployments. Surprisingly, despite what would seem to be a bevy of structural advantages and a solid business rationale, several reports and the findings of this project concluded that the majority of m-insurance products in South Africa failed to achieve scale (see Smith et. al, 2010; Tellez and Zetterli, 2014). On the face of it, m-insurance in South Africa should have been a win-win scenario for both consumer and provider. But why did this market fail to launch, and what might this say about the potential and/or limits of insurance companies as development actors? The central research questions that underpin this study approach this issue from both top-down and bottom-up perspectives. From the top-down perspective, what are the regulatory and market-wide factors that inhibit the development and distribution of m-insurance? And from the bottom-up perspective, what are the factors that drive clients' mistrust of m-insurance products?

Methods

The primary site of the project was based in Cape Town, South Africa, where data was collected between June 2015-April 2016. The methodological approach was essentially divided into two stages. The first stage focused on generating insights related mainly to the regulatory and market factors that inhibit the uptake of m-insurance products. Structured qualitative interviews, which were organized around key thematic areas including: 1) Market trends; 2) Market barriers/challenges to achieving scale; 3) The impact/role of mobile technology; and 4) Regulatory barriers. In total, I conducted 32 interviews—19 with insurance company officials, 5 with technology service providers (TSPs), 2 with administrators, 1 with an MNO, 1 with an industry representative, 3 with state regulators, and 1 with a legislator (National Treasury). To round out the narrative, I conducted 6 interviews with informal insurance providers (i.e. burial societies and funeral parlors).

In the second phase, a mixed, but predominantly qualitative methodology was employed to gain insight into client experiences and perspectives. Through an iterative process, I designed and deployed a survey (N=76), which captured basic demographic data and client attitudes towards risk and various aspects of the micro-insurance value chain (Appendix A). Individual surveys were administered in a branch office of KGA Life, a boutique funeral insurance retailer located in Khayelitsha, which is a large township located on the outskirts of Cape Town. Surveys were also deployed in group settings; a local contact helped assemble local residents in groups of about 7-8 people. Over the course of the fieldwork, 5 group interviews were conducted in Khayelitsha. For both individual and group settings, the survey was backed up by qualitative interviews.

To supplement this data, the Centre for Financial Regulation and Inclusion (Cenfri) invited me to sit in on a series of focus group interviews organized to better understand abuses in the informal insurance market. These focus groups, which were organized in different cities throughout the country (Cape Town, Johannesburg, and Durban), provided critical insight into clients' day to day lives and attitudes. Finally, ethnographic methods were employed to locate these inquiries within South Africa's broader social, cultural, political and economic context.

Findings

A View From Above

From a state and industry perspective, qualitative interviews reveal three primary factors that contributed to the failure of m-insurance in South Africa: 1) The failure of mobile money in South Africa; 2) An onerous regulatory climate; and 3) High-levels of competition in the market.

First, respondents identified the failure of mobile money schemes, which have become ubiquitous in other Sub-Saharan African countries, i.e. M-Pesa, Airtel, etc., as a major reason why m-insurance ultimately couldn't get off the ground:

"If you look on the insurance side, there's always been the belief that you want to link mobile micro-insurance to a mobile money offering. Unfortunately, it only really works if it's taking off significantly and that hasn't existed in South Africa."—TSP operator.

Evans and Pirchio (2015) found that mobile money was more likely to succeed in "poorer countries…where mobile money schemes create more value by reducing a greater friction." In South Africa, these conditions are indeed the case as the sophisticated and relatively accessible banking system makes mobile money obsolete. The failure of mobile money and m-insurance is linked in at least three ways: 1) Without the experience of interfacing with mobile money systems, the client base is not acclimated to doing financial transactions on their mobile devices; 2) There is a lack of a "mobile money infrastructure/ecosystem" which has been used in other countries to piggyback their m-insurance operations (e.g. Airtel Zambia, Tigo Bima Ghana); and 3) The lack of mobile money has led to payment systems that are not ideal for m-insurance operations (i.e. cash, bank debit orders).

Second, in the delicate balance between consumer protection and financial inclusion, it would seem that the regulatory balance is tilted toward the former in South Africa, leading to what industry sources describe as "protecting consumers out of the market". Among the gamut of regulations m-insurance products must comply with, interview respondents pointed to the Financial Advisory and Intermediation Services (FAIS) Act as having the most direct impact on the development of m-insurance products. FAIS is the legislation that sets forth certain fit and proper requirements to ensure that intermediaries are trained, educated and certified to advice on and sell financial products including insurance. A key pillar of the m-insurance distribution strategy is to partner with trusted and recognized brands—"hero brands"—like MNOs, and also popular retailers, which are popular with low-income consumers. To circumvent FAIS in this distribution scheme, m-insurance products are sold "passively" rather than "actively", meaning that agents are not trained to advice clients or answer any questions on the use of these products:

"The holy grail around micro-insurance is advice-based models. To do advice-based models is extremely high cost because of the regulations and the high salaries of the FAIS-qualified agents. So it's impossible in South Africa to do cost-effective advice based models for m-insurance." –TSP operator.

So while FAIS has not been a barrier to the development of m-insurance, it has bifurcated the market in the sense that middle-higher income clients have access to advice-based insurance products, while non-advice m-insurance products are reserved almost exclusively to the lower income segments of the market. As will be made clear, non-advice based m-insurance models largely failed to build any trust with its target population.

Third, respondents pointed out that, similar to mobile money schemes, m-insurance products were not addressing some gap in the market. On the contrary, m-insurance was entering a highly competitive formal and informal insurance marketplace that offered a range of face-to-face, advice-based insurance products (See Appendix B).

"In South Africa because there's so much competition, insurance is now more of a commodity so people are looking at what's best price rather than what might be available. In other markets, it's not such a commodity yet, so it's easier to grow fast."—TSP operator

This bore out in my sample as well; while 89.5% of those surveyed had some combination of formal and/or informal insurance, not a single respondent had ever tried an m-insurance product. On average, respondents spent R196 ($14.39) per month on premiums for formal insurance, and R157 ($11.52) for various informal sources. And yet, when these same respondents were presented with m-insurance products (Appendix C), which presented a significantly stronger monetary value per rand, the vast majority of the sample indicated that they would still not consider purchasing them. It would seem that low-income clients put a high premium on face-to-face interactions with sales agents:

"People seemed to like the products, but there was a lot that was not properly explained. The customers had a lot of questions, very detailed questions. The staff didn't have all the information they needed. We learned that it's better when there are agents."—M-insurance Sales Representative

A View From Below

The structured interviews and survey, which targeted low-income micro-insurance clients, focused on unpacking the reasons for their mistrust of m-insurance products. To do so, it was important to understand clients' experience with m-insurance within the wider context of mistrust in which they live and operate. This environment is typically characterized by high crime rates, lack of formal legal recourse, a lack of consumer advocacy and education, countless experiences with money/phone scams, and high unemployment. Anthropologist Erik Bähre observed how, in the midst of this volatile environment, township residents adopted various coping strategies to mitigate these risk, including the creation of informal financial mutuals, which served as "islands of trust" for their money (Bähre, 2007). Filtered through this ethnographic perspective, the qualitative data suggests that m-insurance products operated outside the boundaries of these islands of trust, and were instead interpreted through a lens developed and used over time to guard against fraud.

For example, many clients rejected m-insurance by citing their personal experiences with phone scams:

"I trust the phone, but I don't trust the people behind the phone. I have seen too many scams on the phone. If I can't see people eye to eye, then I don't know what kind of people they are. Corruption is at every level." – Female Respondent, 61

Many respondents suggested that even if they had a friend or relative who had successfully made a claim via an m-insurance product, they would still not accept the product out of fear that there was collusion occurring with scammers. It should be noted that, to the extent that this perspective is widespread, any word-of-mouth marketing opportunities, which is typically critical for the success of any micro-insurance product, are limited:

"Even if my neighbor has it, I don't care. They could be colluding with the scammers."—Female Respondent, 35

Fears of theft, born from the high crime environment, made clients reluctant to use a phone to conduct sensitive financial transactions like insurance:

"In Khayelitsha, phones are not safe, and they can be stolen or lost."—Male Respondent, 45

Finally, their adverse experience with fly-by-nighters, informal operators who literally vanish in the night, led many clients to reject the concept of a "mobile"-based insurance product, fearing that their premium payments would easily disappear without a paper trace or an office to anchor their claims:

"How can everything be stored on a phone? I need papers to confirm that the contract is real."—Male Respondent, 45

The vast majority of respondents indicated that without an office, they would never trust an insurance product. The office was perceived to be a safe space, or an "island of trust" for their money in a context in which their money is generally not secure. This conceptualization of the office as a safe space helps to put into some perspective why an m-insurance product, which is designed to deal with clients on an individual basis, is struggling to take hold among a client base that is currently structured into groups, where agents, burial society/funeral parlor administrators, peers and family members play a key role in disseminating information and building trust. These entities are the gatekeepers that mediate the access of formal insurance providers to low-income households. If m-insurance ever does scale, it has the potential to allow formal providers to circumvent these gatekeepers and reach clients directly. The research suggests, however, that the understandings and expectation of m-insurance are currently being filtered through a lens shaped by a more informal institutional environment in which clients live and operate. That is, the experience, trust levels, and functional understandings derived from their experiences with informal institutions are being deployed to interpret and ultimately reject m-insurance products.

Discussion

The research project yielded a number of insights that helps to build a more complete picture of why m-insurance failed to achieve scale in South Africa. These have implications for both policy and practice. For example, interviews make clear that the regulations that govern traditional insurance markets are not well suited for the realities of the low-income space. In South Africa, a separate micro-insurance bill was debated and proposed, but was shelved due to macro-political forces. Specifically, fit and proper requirements as it pertains to the education/training of intermediaries are simply not realistic and result in a bifurcation of the market. While the spirit of the legislation is strong on consumer protection, there is evidence that the pendulum has swung too far at the cost of financial inclusion. While getting this balance right is difficult, a dedicated micro-insurance bill with specific provisions that encourage the development of m-insurance would go a long way in aligning legislation with the realities of the low-income market.

To understand why m-insurance markets failed to fully materialize in South Africa, a broader frame is required to capture the multitude of factors that contributed to driving client mistrust—too often, industry assessments attributed failure to relatively narrow issues related to product design or marketing. While the broader issues of crime, fraud, and unemployment are obviously outside the purview of insurance companies to solve, understanding that a large portion of the potential client base copes with such environments might explain why they are seemingly willing to pay a higher premium to deal with insurance sales staff face to face. Among m-insurance developers, there is a debate as to the virtues and drawbacks between "high-touch" products, which incorporate sales agents into their models (e.g. BIMA) and "low-touch" products, which are typically passive models that eliminate sales agents to lower cost. Results from this project seem to suggest that at least initially, a more high-touch approach is required to develop trust, especially in environments where the use of mobile phones to cross-sell financial products have become synonymous with fraudulent activities.

Similarly, when ATMs were first introduced into South African townships, initial reports suggested that there was widespread mistrust among residents. It took concerted time and effort—i.e. bank tellers would walk through each step with individual customers again and again—for clients to eventually trust ATMs enough to deposit their hard earned cash. Examples like this demonstrate that trust in m-insurance products can eventually be earned, but that an initial investment in time and financial resources may be required to do so. As this research shows, efficiency, convenience, and price are necessary but not sufficient factors in building a successful m-insurance market. If the trust gap can be overcome, insurance companies may be in a good position to fully leverage the potential of mobile phones and networks to deliver financial services at a meaningful scale.

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-Appendix A-
Survey and Questionnaire

Dialogue and Open-ended Questions

1. How is life going for you?
2. Where do you come from?
3. What are some of the things you worry about day to day?
4. How did you first hear about insurance?
5. What kind of insurance do you have?
6. How much do you pay in monthly premiums and what is the payout amount?
7. How many people do you cover with your insurance?
8. What was your main motivation to buy insurance?
9. How do you make your insurance payments?
10. What are your feelings about insurance agents?
11. What is something about insurance that you want to see improved?
12. Are you or your spouse part of a burial society or funeral parlour?
    a. **If yes**:
        i. How much is your monthly payment into the burial society?
        ii. Why are you part of a burial society and also have an insurance policy at the same time?
        iii. Who is also part of the burial society in which you are a member?
        iv. Do you see other burial society members regularly or do you just make payments every month?
        v. How many burial societies are you a part of?
13. Do you own a mobile phone?
    a. **If yes**: What type of phone do you own?
        i. What do you use your phone to do?
        ii. Does your insurance company contact you regularly through your phone?
        iii. Do you use your phone to do insurance?
        iv. **If yes**:
            1. What are some of the things you like about using your phone to do insurance?
            2. What are some of the things you don't like?
            3. Did you receive advice about insurance before you signed up for this product? If so, who gave you this advice?
        v. **If no:**
            1. If you could do all your insurance business on the phone, would you prefer to do that or would you prefer to come into the office? Why?

1. What is your gender? (Circle one)
    a. Male
    b. Female

2. What year were you born? ________________

3. Are you married?
    a. Yes
    b. No

4. Who lives with you in your home?________________

5. Who earns the main income of your household?________________________

6. What are the sources of your income for your household? (Circle all that apply)
   a. Regular salary from a job
   b. Self-Employed
   c. Domestic Worker
   d. Grants/Pensions
      i. Which grant(s) do you receive?_____________
   e. Seasonal jobs/Odd jobs
   f. Money from relatives who don't live with you
   g. Other source of income: _________________

7. Approximately, how much is your household income per month? (Circle one)
   a. Less than R800 per month
   b. R801-R1,400 per month
   c. R1,401-R2,500 per month
   d. R2,501-R5,000 per month
   e. More than R5,001 per month

8. Do you have a bank account?
   a. Yes
   b. No

Thank you for all your responses. They were very helpful. Now I am going to pass out pen and paper for you to answer some questions. We are doing it on paper so you can keep this information secret. If you have any trouble with these questions, please ask us, and we will help you.

Risk Experiences

We all face many risks in our lives. Even though we worry about all these risks, I would like to know which risks you worry about the most in your daily life.

Below, you will see three boxes. Within each box, please rank, from 1-4, which risk you worry about the most, and which risk you worry about the least.

1.

Please rank from 1-4. Place a '1' for the risk you worry about the most, and place a '4' for the risk you worry about the least.

Damage to your home_____________

Sickness of a family member______________

Providing for your family in case something happens to you______________

Losing your job or your source of income________________

2.

Please rank from 1-4. Place a '1' for the risk you worry about the most, and place a '4' for the risk you worry about the least.

Having to go to the hospital because of an illness__________

Someone stealing your property____________

Owing money to a bank or to a friend/relative and not being able to pay it back__________

Death of a family member__________

3.

Please rank from 1-4. Place a '1' for the risk you worry about the most, and place a '4' for the risk you worry about the least.

Someone stealing your money_____________

Paying for a funeral_______________

Getting hurt because of an accident_______________

Losing or damaging something valuable you own (e.g. mobile phone, jewelry, etc.)_________

<u>**Insurance Experiences**</u>

Next, I would like to ask you about how you feel about insurance. Please respond to each item on a scale of 1-7, 1 being 'Not at all' and 7 being 'Very much so':

Not at all			Somewhat			Very Much So
1	**2**	**3**	**4**	**5**	**6**	**7**

1. **How much do you trust insurance companies?**
   1 2 3 4 5 6 7

2. **How well does your current insurance policy address your needs?**
   1 2 3 4 5 6 7

3. **How helpful is the advice you receive from insurance agents?**
   1 2 3 4 5 6 7

4. **How comfortable do you feel dealing with the insurance company if you have any problems with your policy?**
   1 2 3 4 5 6 7

5. **How important is it for you to have face-to-face interaction with an insurance agent?**
   1 2 3 4 5 6 7

6. **How confident are you that the insurance company will pay out your claim?**
   1 2 3 4 5 6 7

7. **How convenient is the process of making your premium payments?**
   1 2 3 4 5 6 7

8. **Do you feel that the way your insurance company communicates with you is helpful?**
   1 2 3 4 5 6 7

Mobile Insurance Experiences

Finally, I would like to ask you to rate your experience of the mobile insurance product. After reading each statement, please respond on a scale of 1-7, 1 being 'I Disagree Strongly' and 7 being 'I Agree Strongly':

I Disagree Strongly			**Somewhat Agree**			**I Agree Strongly**
1	**2**	**3**	**4**	**5**	**6**	**7**

1. **Doing insurance on my phone has made it easier for me to pay my premiums.**
   1 2 3 4 5 6 7

2. **Doing insurance on my phone is easy for me to understand.**
   1 2 3 4 5 6 7

3. **If a problem comes up, I am confident that someone from the insurance company will help me.**
   1 2 3 4 5 6 7

4. **I prefer to do all my insurance transactions on the phone rather than going into a store.**
   1 2 3 4 5 6 7

5. **I feel that my money is safe doing insurance transactions on my phone.**
   1 2 3 4 5 6 7

6. **The phone has made it easier for me to receive my claims.**
   1 2 3 4 5 6 7

7. **I am satisfied with the mobile insurance product.**
   1 2 3 4 5 6 7

8. **The mobile insurance product has improved my overall experience with insurance.**
   1 2 3 4 5 6 7

-Appendix B-
Micro-Insurance Value Chain

The microinsurance value chain

Relevant mobile infrastructure	Product design and pricing	Marketing	Sales	Client enrollment	Policy administration	Claim processing	Claim payment
Communication channels ▪ Voice ▪ Regular and premium SMS ▪ USSD		Insurers can promote their services using mobile communication		Customers can self-enrol over the air	Insurers can handle routine customer inquiries over the air	Customers can submit claims over the air	
Retail sales and distribution ▪ Airtime dealers ▪ Mobile money agents			Airtime dealers and mobile money agents can educate customers about microinsurance	Airtime dealers and mobile money agents can distribute and accept enrolment forms			
Payment mechanisms ▪ Pre- and post-paid airtime accounts ▪ Stored-value mobile money accounts ▪ Over-the-counter mobile money payment points				Customers can pay premiums with airtime, mobile money, or over the counter			Insurers can disburse payouts into mobile money accounts or over the counter
Transactional data ▪ Airtime ▪ Mobile money	Insurers can use transactional data to model risk and price policies						
Brand		Co-branding can build confidence in microinsurance among the low-income segment					

**Taken from Téllez (2012): Emerging Practices in Mobile Microinsurance*

-Appendix C-
Comparison of Average Premium/Benefit Ratios (N=76)
Informal Insurance, Formal Insurance, and M-Insurance

Retail Insurance (Formal)	
Premium (Month)	R196 ($14.39)
Benefit	R20,663 ($1,523.25)

Burial Societies/Funeral Parlors (Informal)	
Premium (Month)	R157 ($11.52)
Benefit	R13,842 ($1,020)

M-Insurance		
	Premium	**Benefit**
vodacom	R60 ($4)	R10,000 ($656)
Telkom OLDMUTUAL	Free (R100 Airtime Spend)	R10,000 ($656)
Hollard. PEP	R100	R18,000 ($1,180)
cover2go METROPOLITAN	R10 ($.65)*	R15,000 ($982)