access to insurance initiative

Regulating Mobile Insurance

Insurance business via mobile phones: regulatory challenges and emerging approaches

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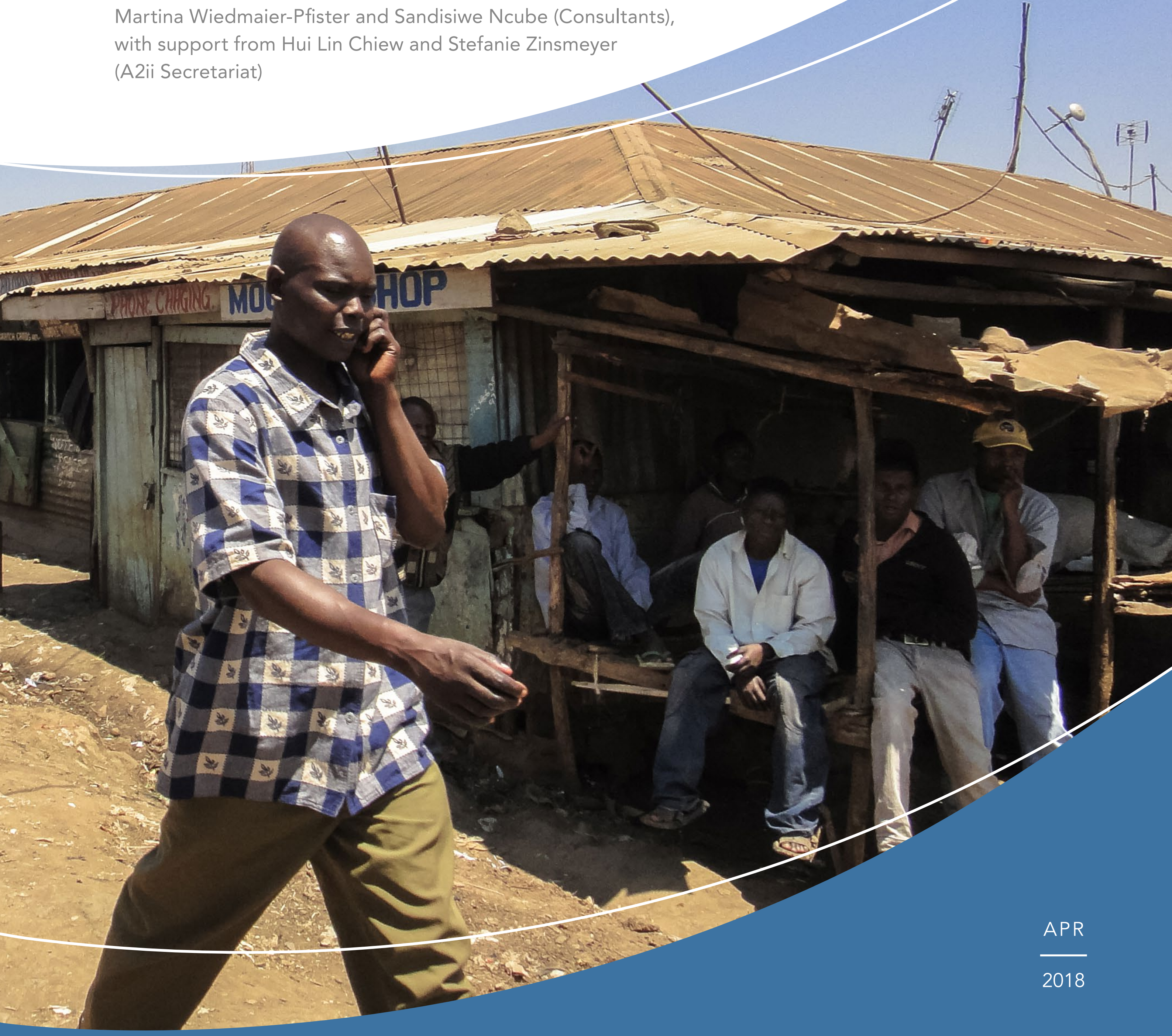

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List of Abbreviations

A2ii	Access to Insurance Initiative
ARPU	Average Revenue per User
BMZ	Bundesministerium für wirtschaftliche Entwicklung und Zusammenarbeit
CGAP	Consultative Group to Assist the Poor
COB	Conduct of Business
CIMA	Conférence Interafricaine des Marchés d'Assurances (Inter-African Conference on Insurance Markets)
DMI	Digital microinsurance
E-money	Electronic money
E-payments	Electronic payments
FAIS	Financial Advisory and Intermediary Services (Act) (South Africa)
FSDA	Financial Sector Deepening Africa
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
GSM	Global System for Mobile Communications
GSMA	GSM Association
IAIS	International Association of Insurance Supervisors
ICP	Insurance Core Principle
IFC	International Finance Corporation
ILO	International Labour Organization
IT	Information Technology
IRDA	Insurance Regulatory and Development Authority (India)
KYC	Know Your Customer
OJK	Otoritas Jasa Keuangan, (Financial Services Authority, Indonesia)
M-insurance	Mobile insurance
MMI	Mobile microinsurance
MIN	Microinsurance Network
MMP	Mobile Money Provider
MNO	Mobile Network Operator
NIC	National Insurance Commission (Ghana)
POS	Point of Sale
TIRA	Tanzania Insurance Regulatory Authority
TSP	Technical Service Provider
SMS	Short Message Service
USSD	Unstructured Supplementary Service Data
VAS	Value Added Service
VAT	Value Added Tax

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Executive Summary

Digital technology is revolutionizing insurance provision. Mobile or m-insurance is the distribution and administration of insurance through digital devices (primarily, mobile phones) utilizing digital technology, interfaces, platforms and processes to support the insurance process across the value chain. It holds the potential to rapidly scale, enhance efficiency and reduce the cost of insurance. In many regions m-insurance is a strong business driver for increasing insurance penetration and is demonstrating its potential commercially viability. Yet, it has resulted in new risks with implications for insurance supervisors.

Despite its significant potential there has been little regulatory and supervisory guidance on m-insurance. The Access to Insurance Initiative (A2ii) commissioned this study in order to address the gap and contribute to the preparation of an International Association of Insurance Supervisors (IAIS) Application Paper on the Use of Digital Technology in Inclusive Insurance (forthcoming 2018). Specifically this study aimed to: explore existing supervisory approaches; provide insights on how to manage the supervisory risks and challenges associated with mobile insurance business models; and highlight areas for future further research and consideration.

The emerging regulatory and supervisory risks, challenges and responses presented in this study are based on stakeholder engagement and desk based research. 26 insurance supervisory authorities and m-insurance key resource persons were consulted via telephone interviews and an online survey from October 2016 to January 2017. In addition, the study incorporates feedback from participants at the IAIS-A2ii-CIMA Mobile Insurance Conference in Cameroon in February 2017.

Key risks and challenges identified, and emerging solutions include:

- **The engagement of non-insurance parties subject to multiple regulatory jurisdictions.** M-insurance is often driven by 'non-insurance' parties namely mobile network operators (MNOs), mobile money providers (MMPs) and technical service providers (TSPs). Unless they are licensed as intermediaries (brokers or agents), these parties may not fall under the purview of the insurance supervisor. As such, m-insurance parties are accountable to insurance, payment systems and telecommunications regulatory authorities among others. This can result in jurisdictional overlap that may create a supervisory gap and regulatory loopholes and arbitrage.
- **A lack of m-insurance technical expertise among insurers and supervisors.** M-insurance is sold via mobile channels and may be serviced by non-insurance parties. Its product approval process requires specialized technical skills to ensure its appropriate supervision, regulation, pricing and underwriting. Yet, these skills are underdeveloped among insurers and supervisors.
- **Conduct of business risks.** The application of mobile phones technology brings new risks related to insurance processes, products, partners and business conduct. The main concerns raised by insurance supervisors are the risks arising from unsound conduct of business on the part of the insurer or other parties in the m-insurance value chain, largely from limited disclosure and customer awareness.
- **Limited disclosure and policyholder awareness.** There are limitations with the m-insurance customer sign-up, registration and contracting process via digital platforms, in

part due to word or character restrictions and lack of human interaction. This results in reduced client awareness about insurance terms and conditions, exclusions and coverage, which can increase the risk of client abuse or client backlash.

- **The power imbalance of partnerships with large aggregators.** The power dynamics within the m-insurance partnership (who is leading, who has the greatest resources and who is driving the partnership) is another important consideration.
- **Regulatory loopholes and existing regulatory frameworks.** Some supervisors acknowledge that m-insurance currently operates by leveraging regulatory loopholes including related to the lack of clarity in the definition of "m-insurance" and the engagement of non-insurance parties outside of the insurance supervisor's purview. In response, several jurisdictions have begun to adjust their regulatory approaches to m-insurance and others have begun to understand and address these challenges. For instance, by reviewing and restricting airtime deduction as a premium payment mechanism (e.g. Tanzania), revising call center scripts (e.g. India) or drafting specific regulations. To date, insurance supervisors have predominantly applied existing regulatory provisions to m-insurance, which can create regulatory gaps. The development of tailored regulatory approaches, whether via a dedicated framework, or by integrating m-insurance aspects into other regulatory provisions, are in the early stages of development.
- **A lack of supervisory tools and techniques specific to m-insurance.** Some surveyed supervisory authorities have begun working on supervisory tools and techniques specific to m-insurance including: the collection of m-insurance performance data e.g. claims ratios etc.; adopting a test and learn or sandbox approach to encourage innovation; building the capacity of supervisory staff and systems; and collaborating with other regulatory authorities.

This study recommends that supervisors take the following actions to accommodate m-insurance:

- **Adopt a proportionate approach.** Key considerations include to: define m-insurance; ensure oversight of non-insurance entities; promote consumer understanding and disclosure via digital platforms; effect adequate regulatory changes; and decide whether to permit airtime deduction.
- **Engage with industry and embrace regulatory flexibility and openness in response to market innovation.** Regulation should not impede the speed of innovation around m-insurance business models and products. Test and learn approaches or regulatory sandboxes are a means to: ensure the oversight of pilots during product approval process; better understand m-insurance models; encourage innovation within a controlled and supervised environment; and collect inputs for regulatory changes.
- **Deepen client understanding of m-insurance risks.** Policyholder awareness was the most frequently raised concern by consulted supervisors. This can be addressed through effective disclosure requirements, or consumer financial education initiatives.
- **Improve supervisory oversight of the entire m-insurance value chain.** Adopting a comprehensive oversight of the m-insurance value chain can improve understanding of its business model, capture potential supervisory gaps, avoid regulatory arbitrage and promote accountability. This can be done by means of indirect supervision through holding insurers accountable for all activities across the value chain, despite the power imbalances, or directly through licensing MNOs and TSPs as intermediaries.

- **Establish data collection systems to inform evidence-based policymaking.** Supervisors need to enhance m-insurance data collection (e.g. on products, claims and renewal ratios) through reporting requirements to build an evidence-base to assess client value and inform policymaking.
- **Build supervisory capacity on digital approaches to insurance provision.** The growth in m-insurance requires insurance supervisors across functions to enhance their technical know-how on digital approaches to insurance.
- **Engage with other national authorities with oversight over non-insurance parties.** This may involve exchanging information and cooperating with other authorities (e.g. telecommunications regulator, central bank) during pilots, drafting of regulations and on-going supervision.
- **Share knowledge with peers.** Peer-exchanges with insurance supervisors from other countries can promote knowledge transfer, especially related to issues where there is limited regulatory precedent, such as: effective treatment of TSPs and MNOs; cost effective monitoring of client value; supervisory tools at the intersection of various regulators; or allowing airtime as payment mechanisms.
- **Integrate m-insurance into consumer financial education initiatives.** As part of national financial education initiatives insurance supervisors can support strategies and approaches to educate consumers about the risks and benefits of m-insurance.

1. Introduction

Digital technology is revolutionizing insurance provision. Mobile insurance (m-insurance) holds the potential to rapidly scale, enhance efficiency and reduce the cost of insurance. In regions with low insurance uptake, m-insurance is a strong business driver for increasing insurance penetration[1] and it is demonstrating its potential commercially viability. Yet these benefits are accompanied by new business and consumer protection risks with implications for insurance supervisors.

1.1 Background

M-insurance is the distribution and administration of insurance through digital devices (primarily, mobile phones) utilizing digital technology, interfaces, platforms and processes to support the entire insurance process across the value chain. In an increasing number of markets, insurance supervisors are observing growing numbers of m-insurance initiatives and clients.

Despite its significant potential there has been little guidance concerning the design and implementation of regulatory approaches and supervisory systems pertaining to digital insurance and specifically m-insurance. This study presents an overview of the emerging regulatory and supervisory risks, challenges and responses.

The application of m-insurance gives rise to particular concerns and considerations for regulators and supervisors:

- **The rapid scale of uptake.** M-insurance rapidly achieves scale in comparison with traditional insurance models and channels. For instance, Telenor India's m-insurance product reached 20 million voluntary sign ups within 150 days and is listed as one of the fastest growing voluntary m-insurance products (Leftley, 2017). Other examples include the Ecolife Zimbabwe product which reached 20% of the Zimbabwean adult population within 7 months; Tigo Bima in Ghana reached 1 million adults within a year and on its launch Airtel Zambia reached 2 million adults (Leach & Ncube, 2014a).
- **New players and power relationships.** Multiple non-traditional insurance stakeholders are involved in the provision of m-insurance including technical service providers (TSPs) and mobile network operators (MNOs). Generally, an insurer, a TSP and a MNO[2], or its subsidiary a Mobile Money Provider (MMP[3]), collaborate on the basis of a partnership agreement. The non-insurance party generally holds power in this business model. This may be either the MNO, which controls the customer base, or the TSP if it drives the partnership.
- **New players may fall outside the purview of insurance supervisors.** MNOs and MMPs often fall outside the purview of insurance supervisors: MNOs are regulated by the telecommunications supervisory authority; MMPs, if they are a separate legal entity, fall under the purview of the central bank. TSPs can be licensed as insurance intermediary but they may also be registered as businesses (see Section 2.2). This creates the need for information to be exchanged between multiple supervisors across different jurisdictions to ensure effective supervision.

1 In terms of number of customers enrolled

2 A mobile network operator is defined as "a company which has a government-issued license to provide telecommunications services through mobile devices"; Mobile Insurance, Savings & Credit (GSMA, 2016b).

3 MNOs are a key driver of Mobile Money Providers. "In 2015, mobile money was available in 93 countries of which 51 had an enabling regulatory framework. Mobile network operators continue to play a leading role in delivering mobile money and deepening financial inclusion—69% of services launched in 2015 are operationally run by MNOs, and 58% of alive services are MNO-led"; 2015 State of the Industry Report, Mobile Money (GSMA, 2016a).

- **Overlapping oversight can create regulatory gaps or arbitrage.** Multiple jurisdictional oversight can create gaps or overlap, which may result in confusion concerning who (which entity) or what (which activity) is being regulated. Furthermore, non-insurance entities may take advantage of the regulatory confusion and conduct insurance activities without accountability, potentially resulting in regulatory arbitrage.

- **Outsourcing of key functions may have cost implications and affect the product life span.** The provision of m-insurance requires the outsourcing of key insurance functions to a TSP and/or MNO or others. While this increases efficiencies and scale, this may have significant cost implications because the MNO and TSP require compensation, typically in the form of a commission. Should there be disagreement between the parties in the m-insurance value chain, the product may be abruptly withdrawn resulting in market and regulatory backlash, as in the case of Ecolife in Zimbabwe (see Zimbabwean m-insurance case study for lessons learnt on Ecolife's failure that left 20% of adult population without insurance cover overnight[4]).

- **Lower consumer awareness and understanding.** Microinsurance group policies are insurance products offered on a group underwriting basis where clients are automatically enrolled for cover. Examples include credit life products where clients obtain "free" cover. Clients may be unaware they are covered because products are underwritten on a group basis, and in turn they may not know how to claim. Like other embedded or group microinsurance products, m-insurance extends to previously unserved segments, many of whom have had little-to-no previous exposure to insurance. This leaves them vulnerable to mis-selling and abuse. The client may not understand who the insurer is, how to administer the product, where they can claim and what the available recourse options are. This is because clients engage with m-insurance through their mobile phones (or digital interfaces like USSD) with limited means for communication (e.g. via SMS) and often under the brand of the MNO. Furthermore, clients may not know their rights and the insurer's obligations because they may not have access to the policy documentation.

- **Concerns pertaining storage and retrieval of client data.** Conventional insurance products require insurers to create unique accounts that are identifiable by the insurance policy number. As such, the client's policy number can be easily retrieved should client data (risk profile) be required. In the case of m-insurance, client data is potentially linked to the client's cell phone number and stored on the TSP or MNO's server. This bears the potential risks that client data (risk profile, history) may be lost or inappropriately managed across the various data management platforms. For example, SMSs may be deleted from the client's phone during the m-insurance sign up process and difficult to retrieve later.

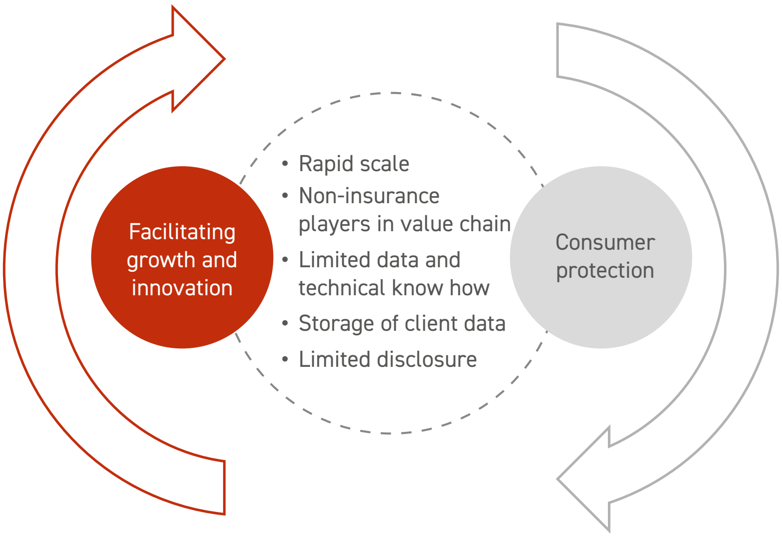
- **The speed of technological innovation challenges existing regulatory and supervisory frameworks.** Technological innovation often outpaces any supervisors' ability to adjust existing regulatory and supervisory frameworks and practices. Such adjustments typically require significant amounts of time and supervisory capacity to accommodate the necessary processes. Adopting new regulations may require the time consuming involvement of multiple institutions and various legislative processes.

- **M-insurance supervision and regulation is limited by a lack of know-how and data.** Insurance supervisors may lack the mobile technology expertise, which may be exacerbated by their limited data collection ability pertaining to m-insurance products and processes. Conventional insurance supervisory frameworks are designed to collect data for traditional insurance distribution channels and often do not account for new, innovative or non-traditional models, such as insurance distributed via mobile phones or digital platforms.

4 Regulating m-insurance in Zimbabwe: managing risk while facilitating (Leach & Ncube, 2014b) Ecolife Zimbabwe clients were suddenly left without cover due to a dispute between the various parties in the partnership over commission fees and structures.

These m-insurance challenges and concerns present dilemmas for insurance supervisors. Insurance supervisors need to balance their supervisory objectives of facilitating growth while protecting the market (consumers), without limiting innovation. Meanwhile, they need to stay abreast with the latest technological developments (see Figure 1).

Figure 1. Understanding insurance supervisor's dilemma in light of m-insurance



1.2 About this study

Objective. In response to the regulatory and supervisory challenges and risks pertaining to m-insurance, the Access to Insurance Initiative (A2ii)[5] commissioned this study to review and learn about existing supervisory approaches to m-insurance with the aim to:

- Provide insights into existing m-insurance supervisory responses to the challenges and risks that arise;
- Generate additional knowledge to disseminate to insurance supervisors who are seeking to gain further insights on how to manage these supervisory risks and challenges; and
- Highlight areas for future further research and consideration.

Methodology. This study used a number of tools including: interviews, an online survey, and a literature review including of some regulations. The online survey and telephone interviews were conducted with 26 insurance supervisory authorities and technical experts within the global m-insurance sector from October 2016 to January 2017.[6] Specifically, representatives from 9 countries participated in telephone interviews namely: Brazil; CIMA[7]; Ghana; Kenya; India; Indonesia; Philippines; South Africa; and Tanzania.

5 The Access to Insurance Initiative (A2ii) is the implementation partner of the International Association of Insurance Supervisors (IAIS) on inclusive insurance. The A2ii's mission is to strengthen the capacity and understanding of supervisors to facilitate the promotion of inclusive and responsible insurance, thereby reducing vulnerability. Part of this role is to extract relevant learning and build supervisory capacity. For more information, see: https://a2ii.org/

6 For a full list of all the participants in the study, see Annex 3: Consultations.

7 Conférence Interafricaine des Marchés d'Assurances (CIMA): The 15 member countries are: Benin; Burkina Faso; Cameroon; Central African Republic; Chad; Congo; Côte d'Ivoire; Equatorial Guinea; Gabon; Guinea Bissau; Ivory Coast; Mali; Niger; Senegal; and Togo.

1.3 The concept of m-insurance

An international definition of m-insurance by the IAIS is under way. Recently, m-insurance has been formally defined in two jurisdictions, namely, Ghana and Pakistan (see box 1).

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BOX 1 I Defining m-insurance

Various definitions of m-insurance exist. There is no consensus among stakeholders on the definition of m-insurance. The online survey and interviews conducted as part of this study with the insurance supervisors and technical experts revealed different definitions and interpretations of m-insurance. The definitions used to date have been insufficient to build the case for a potential differentiated legal approach (See Section 4, Regulatory Considerations). Existing definitions include:

- **Consultative Group to Assist the Poor (CGAP):** Mobile microinsurance (MMI) is any microinsurance product "that leverages mobile technology - including phones as well as point-of-sale (POS) and radio-frequency identification (RFID) devices - for automation of some part of the process" (CGAP, 2014) .
- **BMZ:** "Mobile insurance relies on the mobile phone ecosystem and infrastructure to support the functions of the insurance process" (BMZ, 2015).
- **FinMark Trust:** "Insurance sold through and/or with a mobile network operator (MNO)" (Leach & Ncube, 2014b).
- **Bill and Melinda Gates Foundation:** M-insurance is defined as a subset of digital microinsurance. "The term 'Digital Microinsurance' (DMI) is used to encompass the broader role of digital mechanisms to support the delivery of microinsurance. DMI is generally broader and more encompassing than the term mobile microinsurance " (Leach, et al., 2015).
- **GSMA:** Defines m-insurance as "Insurance enabled by mobile, broadly speaking. This includes insurance enabled by mobile money, as well as insurance that leverages airtime channels for premium payments" (GSMA, 2017).
- **The A2ii-CIMA workshop on m-insurance, Ivory Coast (16th - 17th May 2016):** M-insurance is mobile microinsurance and a "microinsurance product that relies on the mobile phone system and infrastructure to support functions of the insurance process" (Report of the CIMA-A2ii Workshop, Regulating Mobile Insurance 16-17 May 2016).
- **International Association of Insurance Supervisors (IAIS) 2015:** The IAIS Issues Paper on Conduct of Business in Inclusive Insurance (November 2015) defines mobile insurance as "mobile phone supported distribution or insurance driven by mobile network operators and other aggregators. These approaches are called "mobile insurance".
- **The draft IAIS Application Paper on the Use of Digital Technology in Inclusive Insurance (2018),** "Mobile insurance" (m-insurance) refers to any insurance which is sold or subscribed to through a mobile phone and/or in partnership with a mobile network operator (MNO).
- **National Insurance Comission (NIC) Ghana** has legally defined m-insurance (2017, see Box 6). Securities and Exchange Commission (SECP) has defined "technology based distribution channels" (2018) which means "sale of insurance through channels involving technology including, but not limited to, mobile, internet, telephone etc. whether through involvement of corporate insurance agents or otherwise."

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For the purpose of **this study,** m-insurance is defined as "insurance where the distribution and administration is through digital devices (primarily, mobile phones), utilizing digital technology, interfaces, platforms and processes to support the entire insurance process across the value chain."

2. The m-insurance landscape

M-insurance has emerged as an attractive value proposition to provide simple insurance products to large consumer pools. It applies mobile technology throughout the insurance value chain and allows for instant client reach and significant scale at a lower cost than traditional business models. The entrance of new industry players such as technical service providers (TSPs) has further shaped the evolution of this business model.

2.1 Business models and key drivers

Core stakeholders in the m-insurance value chain include MNOs, insurers and TSPs. The m-insurance value chain is made up of both traditional insurance stakeholders (an insurer/underwriter, and insurance intermediaries) and non-traditional insurance stakeholders such as MNOs, and TSPs. These stakeholders can play various roles in the m-insurance business models, with exception to underwriting, which is limited to the insurer.

- **Insurer:** Provides the underwriting function and gateway to the insurance supervisor for non-insurance players in the value chain. The insurer is often the weakest party in the mobile insurance partnership due to their limited client base and financial resources in comparison with the MNO, which often has access to a large client base and financial resources dwarfing those of the other parties in the value chain (Leach & Ncube, 2014b).
- **MNO[8]:** MNOs typically provide access to a client base and branding. Depending on the nature of the business model they initially provide their customers with free premiums as loyalty products.[9] The MNO is often the strongest party in the value chain and m-insurance partnership due to their large client base (sometimes in the millions), access to vast financial resources, a wide agent network and well-known brand name. At the core of an MNO's value proposition is the regularity of client engagement due to the frequent use of mobile phones and associated services including airtime top up, which supersede the capacity and capability of the insurer. This frequency of engagement establishes a foundation of trust between the client and the MNO. Insurers do not have such a relationship with clients as there is a low frequency of use of insurance products and therefore insurers maybe unknown or untrusted. In some instances, it is not the MNO itself, but its MMP subsidiary, which plays this role in the m-insurance value chain. This is because they typically serve as the MNO's mobile financial services unit (see footnote 3).
- **TSP:** TSPs can hold various functions and provide a range of services including: the technology platform, call centre functions; and other support services from enrolment, sales, policy administration to claims management. The role and function may differ depending on the type of TSP, the specific market they are engaged in and the partnership model. In some partnerships, all functions short of underwriting are outsourced to a TSP, while in other markets TSPs have obtained insurance licences, mainly to act as intermediaries (see Box 2).

8 In some instances, the partnership is with the MNO's MMP subsidiary. This study does not distinguish between the two.

9 Loyalty ("free") insurance is provided at no direct cost to the client. In such cases, the premium is paid by the aggregator on behalf of its clients. The aggregator provides the loyalty cover with the aim of achieving certain behaviour in its clients such as increased use of airtime, mobile money transactions or savings in mobile wallets (Leach & Ncube, 2014b). The level of cover is determined by a behaviour or condition, e.g. the airtime spent.

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BOX 2 | Technical Service Providers (TSPs)

TSPs assume various functions in the m-insurance value chain. TSPs exist in various forms and perform diverse functions depending on the nature of the business model and partnership. Typically, they work in partnership with an aggregator (e.g. a MNO or a Microfinance Institution) and an underwriter and provide more extensive services than that of a traditional broker. This may include offering their expertise in using innovative mobile technology in insurance design, distribution and delivery.

TSP may take different forms depending on the jurisdiction. Generally, they are licensed insurance intermediaries (agents or brokers, or microinsurance intermediaries), or, licensed as service providers by another government authority (for example, the telecommunications regulator). TSPs may be referred to as InsurTechs or global intermediaries.

MicroEnsure and BIMA: Examples of TSPs. Globally, *MicroEnsure* and *BIMA* are the two largest international TSPs. As of April 2018, MicroEnsure had 56 million registered customers (of which 18 million were new in 2017) in 11 countries;[10] while BIMA had 24 million subscribers in 14 countries[11]. Both have plans to expand their market reach and product offering. Other smaller TSPs focus their operations on specific functions, or particular regions and countries. For example, *StoneStep* is active in Asia, particularly Myanmar, Thailand and the Philippines; *Activa* is active in Senegal/West Africa; *Trustco* operates in Namibia and Zimbabwe; and *Inclusivity Solutions* is geographically focused on Kenya, Rwanda, Uganda and the Ivory Coast, with plans to expand operations within Africa.

TSPs provide valuable support functions. TSPs have demonstrated their crucial role in m-insurance partnerships and assumed key functions across the insurance value chain including product design, agent network support, IT platform development, client data management. Some interviewees stated that most successful m-insurance initiatives are largely TSP-driven with strategic buy-in and support from the MNO.

TSPs can be market disruptors becoming underwriters. Some TSPs and several MNOs have acquired insurance licenses. This development has the potential to significantly disrupt the structure of the m-insurance value chain as it bypasses the need to partner with existing insurers.[12]

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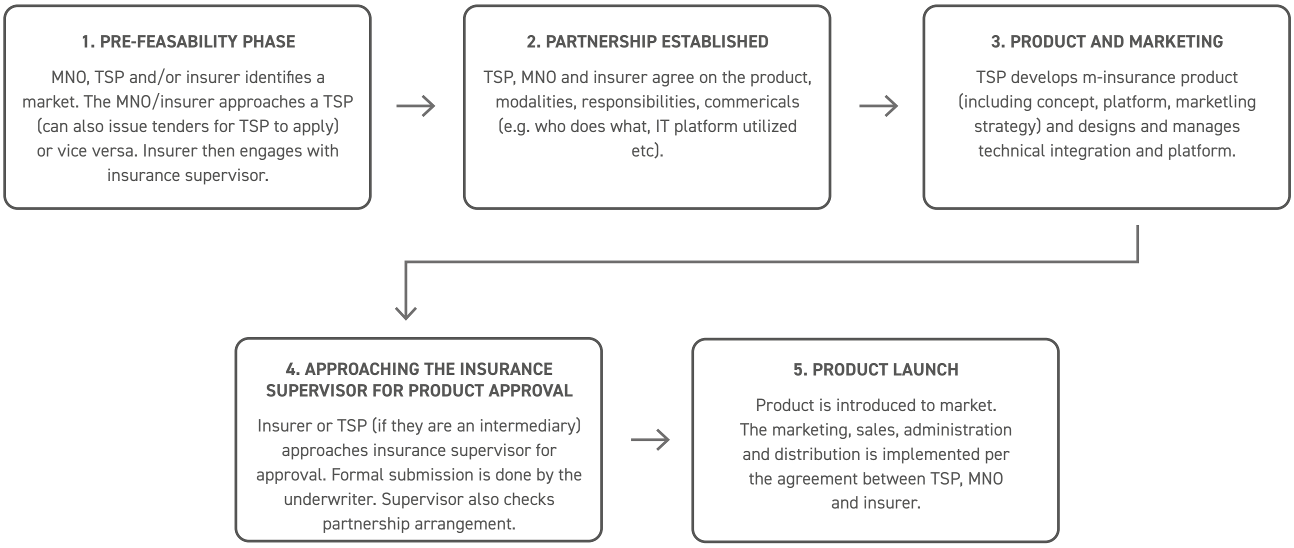
10 See http://microensure.com/locations/ as of 4th April 2018, MicroEnsure operates in 10 countries including: Africa (Ghana, Kenya, Malawi, Nigeria and Tanzania) and Asia (Bangladesh, India, Pakistan, Philippines, and Vietnam).

11 See http://www.bimamobile.com/about-bima/where-we-operate/ BIMA currently operates in 14 countries across 4 regions: Africa (Ghana, Senegal, Tanzania); Asia (Bangladesh, Cambodia, Indonesia, Pakistan, Philippines, Sri Lanka); Asia Pacific (Fiji and Papua New Guinea); Latin America and the Caribbean (Haiti, Honduras, Paraguay). BIMA calls itself an "InsurTech player that uses mobile technologies to fuel financial inclusion".

12 BIMA (a global TSP) has acquired a microinsurance license in Cambodia (Milvik): http://www.bimamobile.com/news-and-media/news/bima-awarded-microinsurance-license-in-cambodia. Vodacom (a South African MNO) has also acquired an insurance license: https://techcentral.co.za/vodacom-gets-a-licence-to-sell-insurance/28194/

Figure 2. M-insurance partnership process diagram involving TSP and MNO



Tripartite partnerships. A tripartite partnership between an MNO, a TSP and an insurer has the advantage of providing expertise outside of any conventional insurer's capabilities. Generally one of the parties, the MNO, the insurer or as in many cases more recently the TSP, will prepare a business proposal. The insurer or the TSP, in cases where the TSP is a licensed intermediary, then approaches the insurance supervisor for product approval (see Figure 2 above). Following the launch, the TSP provides the information technology (IT) system required for customer enrolment, engagement and claims submission. This process may differ depending on the jurisdiction. Figure 2 shows a simplified overview of the m-insurance partnership process within an ideal setting or situation.

Multiple m-insurance business models exist. A business model is loosely defined as "the manner in which a business captures value from its operations."[13] To date, various m-insurance business models have emerged, and are classified according to which entity drives the partnership (Type 1), and the role of the MNO (Type 2).

Table 1. Types of m-insurance business models

Definition of m-insurance business models		
Type 1 **Which entity is driving the partnership?**	**Insurer-led**	Insurer leads and drives partnership TSP leads and drives partnership MNO leads and drives partnership
	TSP-led	
	MNO-led	
Type 2 **Which role is the MNO playing?**	**MNO-led = strategic**	MNO plays significant role providing significant resources and backing
	MNO-limited = transactional	MNO plays a limited or lesser role

Source: (BMZ, 2015) and (Leach & Ncube, 2014a)

13 Financial Times Lexicon – Business Model – See: http://lexicon.ft.com/Term?term=business-model

→ **Type 1 – Based on the party driving the partnership.** M-insurance stakeholders may hold various roles, depending on the type of business model. Any party –the insurer, MNO or TSP - can initiate or lead the partnership, and their roles may vary over time:

- **In the insurer-driven business model,** the insurer takes the lead in the partnership by conducting product development and overseeing the overall business strategy. In these cases, the product is branded by the insurer and there is either co-branding with the MNO or MMP or no MNO/MMP branding. The MNO plays a less prominent role, where it provides MNO infrastructure and data, sometimes supported by the MMP. The role of the MNO or MMP is generally limited to facilitating premium payment and acting as a shop front where the insurer can display and sell their product (Leftley, 2017).
- **In the MNO-driven business model,** the MNO drives the initiative, and leads with their branding on the product while also ensuring the insurer or TSP are mentioned (Leftley, 2017). The MNO/MMP provides the insurer with its client base, enrols clients and provides the payment mechanisms. Some models also involve a TSP helping with systems and marketing. In all models, the MNO deploys its considerable brand strength in stimulating insurance uptake, in order to drive direct revenue and/or adjacent benefits, such as increasing average revenue per user (ARPU), reducing churn and enhancing their brand.[14] In the loyalty approach, the MNO pays premiums on behalf of its customers who can enrol free of charge for basic cover.
- **In the TSP-driven business model.** The TSP takes the initiative in that it initiates dialogue with the insurance supervisor, approaches the MNO and selects an insurer, identifies the target market and customer profile, develops the product, and leads the formation of the partnership. The TSP also typically 'fills the gaps' in providing expertise and support where needed (including development of the platform, back-office processing). In some cases the TSP takes the lead and convinces the MNO to launch free or loyalty insurance (Leftley, 2017). Based on feedback from interviews conducted as part of this study, this model is gaining increasing prominence (BMZ, 2015).

→ **Type 2 – Based on the role played by the MNO**

- **Strategic m-insurance.** The MNO (or MMP) drives the model and contributes significant resources and backing to the initiative. The MNO provides a payment channel and facilitates premium collection as it views m-insurance as a significant client value proposition that can drive ARPU, reduce churn, and other adjacencies.[15] As such, MNOs will invest significant resources in various ways including funding premiums on behalf of subscribers such as loyalty products, funding marketing and advertising, and deploying dedicated sales staff.
- **Transactional m-insurance.** The MNO provides a minimal role and limited support. Typically clients will be responsible for paying the premium using their airtime or via their mobile wallet. The MNO plays a minor role and functions, simply facilitating the payment of premiums. Beyond this, the MNO provides little-to-no investment or role in driving sales, marketing and advertising (Leach & Ncube, 2014a).

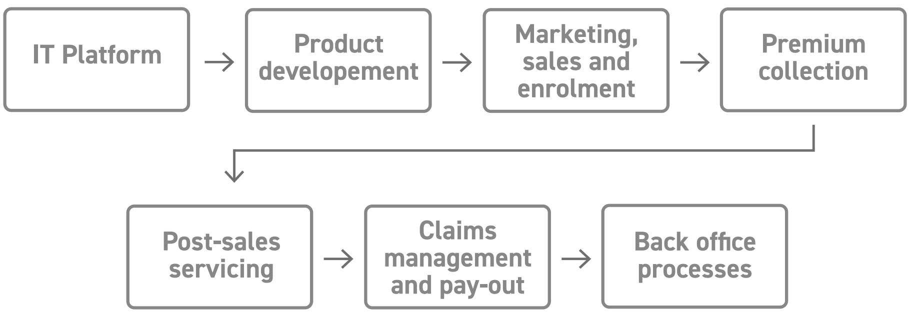
14 A2ii, Report on the CIMA-A2ii Workshop "Regulating m-insurance", 16th and 17th May 2016 (A2ii, 2016)
15 In loyalty m-insurance models clients do not pay for the premium and receive "free" cover based on usage of airtime or other usage behaviour. Typically, the MNO funds the premium on behalf of the client.

MNOs are strong drivers of the m-insurance business. M-insurance has shown impressive growth, especially in Africa and Asia. According to the Global Association of Telecoms (GSMA), as of 2016, there were 106 m-insurance services in 31 emerging markets. This represents strong growth in comparison with the 41 services in 14 emerging markets in 2011. As of June 2016, approximately 53 million m-insurance policies had been issued, with seven m-insurance services issuing more than one million policies each (GSMA, 2017). TSPs, MNOs and MMPs are key drivers of m-insurance and its growth (GSMA, 2016b). A recent study found that 63% of m-insurance services globally were led by MNOs.[16] As conventional revenue streams dwindle, MNOs have begun to offer clients additional value-added services (VAS), such as insurance, as a way of improving returns per user. MNO conglomerates like Axiata, Airtel[17], Orange, MTN, Telenor, Tigo[18] and Vodafone[19] are internationally active in the m-insurance market.

2.2 TSPs in the value chain of m-insurance

The m-insurance value chain is complex. The m-insurance value chain is comprised of key functions including: IT platform development, mobile insurance product development, pricing and underwriting, and marketing. As with other alternative distribution models typical of inclusive insurance, the provision of m-insurance is characterised by a lengthier, more complex value chain, which includes conventional stakeholders (such as insurers and intermediaries) and non-conventional stakeholders. Typically, MNOs contribute their client base, and generally, TSPs structure the partnerships assuming various functions including (see Figure 3):

Figure 3: Steps in the m-insurance value chain assumed by TSPs



There is limited supervisory oversight over those stakeholders outside the formal insurance market. A conflict emerges and challenges arise for the supervisor when non-insurance players (the MNO or MMP and those TSPs performing insurance functions without an insurance license) conduct insurance functions. For example, MNOs selling and distributing and also managing payments. As revealed in interviews for the study, there are cases of m-insurance partnerships where non-insurance entities conduct insurance activities.

16 Mobile Insurance, Savings & Credit Report (GSMA, 2016b).
17 Airtel h as launched m-insurance products in Kenya, Malawi and Tanzania.
18 Tigo is active in various countries including Ghana, Honduras, Paraguay, Senegal and Tanzania.
19 Vodafone is active through its various subsidiaries in South Africa (Vodacom) and Kenya (Safaricom).

2.3 Products and their payment options

M-insurance products are evolving from loyalty based, simple benefits to paid products with more diverse coverage. Initial m-insurance product offerings were simple life and accident cover. These became increasingly diverse, and some schemes now include among others (and often as bundled risks): personal accident, agriculture, and hospitalization cover. The first wave of m-insurance initiatives introduced loyalty models where premiums were paid by MNOs, but in most instances clients could 'upgrade' the cover by paying an additional premium. As m-insurance markets worldwide mature, clients are increasingly converting from loyalty models to paid products. In one large scheme in Ghana, 55% of clients migrated from a loyalty product to a paid product (CGAP, 2013). The majority of newly launched m-insurance products now require clients to pay premiums. Loyalty products are slowly being phased out by players in some markets, while in others the MNO still drives the loyalty-based model and finances the premiums as a client incentive. As such, the level of MNO engagement differs across regions. The loyalty approach is still more common in Asia, compared to Africa where paid products seem to dominate.[20] In some markets, loyalty products are being phased out and m-insurance offerings are evolving to paid models. To date, some paid models have achieved scale but not at the level of loyalty models.

There are signs of a potential shift from group policies towards individual or customised policies. Generally, loyalty products are provided to clients on a group basis. In these instances, the MNO or the TSP is the master policyholder. In such models, the insurer (and other players in the value chain) do not typically engage with the client on an individual basis. However, in some markets providers are moving towards paid models. Notably, a migration towards paid models does not necessarily imply the selling of polices on an individual basis. There are cases where individuals are opting into paid models, provided by a master policyholder, on a group or "club" basis because group policies come with lower transaction costs, and policies sold on an individual basis are not offered.

The m-insurance sign up process is generally digital and overseen by TSPs. TSPs typically oversee and manage client on-boarding and administration. The two largest TSPs, MicroEnsure and BIMA, both use a paperless or digital approach to engage with clients, although there are some exceptions in markets where paperless transactions are not allowed. Practically, this means that clients can self-register for insurance products by sending a short code via SMS without the need of an agent or physical signature. In some cases the sign-up process is done purely on an electronic basis (including electronic/digital signatures). At the Mobile Insurance Conference 2017 organized by the A2ii, IAIS and CIMA (A2ii, 2017) in Cameroon,[21] TSPs explained that they adopt an electronic approach to client sign-up because it is seamless, decreases costs and increases the number of clients enrolled in comparison with a paper based approach. Furthermore, utilising a digital/electronic client enrolment approach allows for the capture and usage of client data and increases access to clients. For example, insurance TSPs like BIMA provide customers with monthly SMS reminders of the insurance product subscribed to (BIMA, 2016).

20 Based on insights from interviews.
21 https://a2ii.org/en/event/save-date-iais-a2ii-cima-mobile-insurance-conference

Airtime payment models quickly achieve scale but are not always permitted. Mobile wallets and airtime deduction are the two predominant forms of premium collection available to m-insurance clients across various jurisdictions, with the latter the most prominent. Other payment forms such as cash or bank deductions are also available, however, cash is a costly premium collection method (BIMA, 2016). GSMA[22] found that 63% of premiums collected through MNOs are done through airtime deduction (GSMA, 2016b). The benefit of airtime deduction is that it does not require clients to register, while mobile wallets or mobile money require client registration (providing various documents and information). One TSP found that airtime deduction results in the highest conversion[23] (25%) from loyalty to paid products, in comparison with mobile wallet-based payments (1%). In some jurisdictions, central bank regulations do not permit the use of airtime as a store of value and a payment instrument. This may potentially impede the growth of m-insurance in these markets (A2ii, 2016). Table 2 shows the advantages and disadvantages for clients and business partners of airtime deduction versus mobile money accounts (also called mobile wallets) m-insurance payment options.

22 GSMA represents the interests of mobile operators worldwide, uniting nearly 800 operators with more than 250 companies in the broader mobile ecosystem, including handset and device makers, software companies, equipment providers and internet companies, as well as organisations in adjacent industry sectors. See www.gsma.com

23 Conversion rates are rate at which loyalty (free) m-insurance clients convert to paid models e.g. if the conversion rate is 25% it would mean 25% of clients on the loyalty offering have converted to a paid model.

Table 2. Comparison of airtime deduction and mobile money payments

	Airtime	Mobile money
Advantages	• Can be deducted in very small, even daily instalments – for instance, when clients recharge with small amounts, these can be used to pay premiums. • More convenient for the client as no extra registration with MMP is needed. • Highest conversion rate (20 – 25%). • Technology deployed to facilitate airtime deduction is inexpensive.	• Ease of (direct) access to client. • Integration of bill payment on mobile phone • Client is registered with the MMP,[24] which allows access to more client information and data on financial patterns, spending behaviour etc. and hence, enables the provision of customised services. • Easier to get buy-in from MNO as most MNOs encourage the usage of mobile wallets through MMPs.
Disadvantages or issues to consider	• Value added tax (VAT) is charged on airtime, which makes premiums up to 20% more expensive. • Often no transparency of deductions and payments done via airtime and so it can be difficult for clients to get monthly statements of airtime usage. • Central bank may not approve airtime as a permissible form of payment or value of exchange.	• Mobile money infrastructure needs to be in place. • Client needs to open a mobile money account and to register with the MMP, which includes providing various documents to meet KYC[25] requirements. • Client's usage of mobile wallet is very low in many jurisdictions. Even though large numbers may be registered with the MMP, many mobile money accounts are inactive due to usage/transaction fees and limited understanding and engagement. • Very low conversion rate of approx. only 1% from loyalty model (paid by MNO) to mobile wallet payments.
How common is this?	• Where allowed, it is used as it is the easiest model for client engagement. • 99.5% of the mobile phone market in many developing markets utilises prepaid airtime (pay-as-you-go) connections.[26]	• Much less used but future potential. • Proposition of electronic money/mobile wallets are often attractive for many consumers, even for those who initially register as users, but later, rarely use the service. In many markets there is limited consumer understanding of mobile money for example of fees or proof of payment issues.
Open questions and further considerations	• How can transparency for airtime transactions be ensured? For examples could they include having a structured disclosure regime at inception, provision of monthly statements etc.? • Could potential consumer abuses be addressed through ensuring adequate and rigorous IT platforms that update client data and information on a regular and timely basis?	• As the bulk of mobile money accounts are inactive, can insurance help improve their usage (e.g. by facilitating claims payment through mobile wallets)?

24 A mobile money account provides more information concerning spending and financial behaviour than an airtime account e.g. if client has money on account, has a loan, makes regular payments etc. Such information is not available or difficult to attain with airtime or prepaid accounts.

25 Regulated financial institutions or institutions engaging in the provision of financial services including MMPs who provide mobile wallets are generally required to perform due diligence on their clients and therefore comply with certain identification and verification requirements, known as 'Know Your Client' (KYC), whereby financial service providers must be informed of client details such as residential address and identity number. KYC requirements often fall under broader anti-money laundering and criminal financing of terrorism (AML/CFT) regulatory and supervisory requirements.

26 The Risks and Rewards of Airtime as Currency (Mondato, 2014)

Airtime payment of m-insurance is prohibited in some jurisdictions. While airtime deduction has the highest conversion rate from loyalty to paid models, in some jurisdictions there have been cases of consumer abuse with this mode of payment. This has resulted in the prohibition of this payment method (e.g. in Tanzania), despite its ubiquitous presence and ease of use as a mode of payment for the bulk of mobile phone users. An example of abuse include airtime being deducted without clients' permission. See Box 3 for an example of how consumer abuses pertaining to airtime deduction resulted in market backlash and the subsequent banning of this mode of payment.

BOX 3 | Challenges with airtime deduction as a form of payment in Tanzania

"Air time deduction was previously permitted when m-insurance initially started in Tanzania. Over time, the Tanzania Insurance Regulatory Authority (TIRA) started experiencing a huge volume of complaints from clients who were unaware of their m-insurance product subscription premium deductions. When clients topped up their airtime, they found a significant portion was deducted and were unable to ascertain why. Furthermore, clients were unable to unsubscribe (as they were not aware they were signed up) even after the provider was notified that clients would like to unsubscribe.

In response to the large volume of complaints, TIRA engaged with the industry and providers of the product and requested a product survey be conducted. Further investigation revealed that the providers had challenges with the platform that was being utilized. The system could not unregister and unsubscribe clients and hence the continual deduction of premiums even after clients had deregistered. Subsequently, TIRA does not permit airtime deduction as an acceptable mode of payment. Following the banning of airtime deduction as a mode of payment, the overall premium collected dropped tremendously."

Source: Interview (Abayo, 2016)

3. M-insurance risks and challenges

While m-insurance shows potential of being both a commercially viable business and a way to dramatically increase access to insurance, it also raises insurance supervisory concerns. The nature of the m-insurance creates a variety of new risks and challenges. Insurance supervisors need to understand the nature, scale and complexity of such risks to ensure the development of a sound, well-informed supervisory approach.

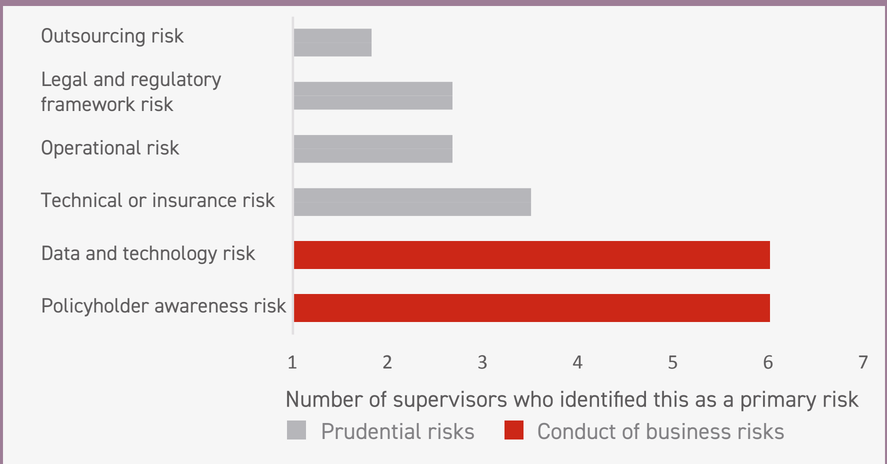
3.1 Overview of major risks

Prudential risks exist but are outweighed by conduct of business risks. The application of mobile phone technology comes with new risks and challenges related to processes, products and partners, and the way in which they conduct business. Such risks can be grouped into two broad categories – prudential risks and conduct of business risks. However, the IAIS Application Paper on Approaches to Conduct of Business Supervision (IAIS, 2014) calls for supervisors to consider the interrelationship between these broad risk classifications.[27] The survey and interviews with supervisors revealed a clear concern about conduct of business risks (see Box 4).

BOX 4 | Key risks identified by insurance supervisors

Insurance supervisors from 26 jurisdictions were asked via an online survey to state, and rank by importance the key risks pertaining to m-insurance. 20 jurisdictions responded to this question. Figure 3 summarizes the key risks identified. Policyholder[28] awareness, and data and technology risk were cited and ranked as the most pressing risk types. It is important to note that risks were not categorized and respondents were asked to only identify the risks presented in the survey.[29]

Figure 4. Primary risks identified by insurance supervisors



27 The IAIS does not standardise or prescribe classification of risks under each category. National supervisors are able to tailor these classifications at the level of their individual jurisdiction's supervisory requirements. ICP Standard 16.1: "The supervisor requires the insurer's enterprise risk management framework to provide for the identification and quantification of risk". Guidance 16.1.1 provides only non-binding guidance on the classifications of risks that should be included (IAIS, 2017). The IAIS Issues Paper on Conduct of Business Risk and its Management (IAIS, 2015b) also refers to ICP 8 (Management) and ICP 16 (capital), and emphasises on the interrelationship between prudential and conduct of business risks.

28 Policyholder here also stands for the insured in cases where insurance is provided by a master policyholder and the group members are the insured.

29 A core set of risks were identified and presented to the survey respondents. There was no strict classification or categorization of risks.

What makes m-insurance models risky?

- **M-insurance reaches previously unserved markets who are unfamiliar with insurance.** While there is a gender gap in mobile phones ownership[30], mobiles are ubiquitous devices with a reach, frequency of use and engagement that cuts across all strata of society. M-insurance reaches underserved segments of the population many of whom have not had previous exposure to insurance. Furthermore, clients may not be aware of their insurance coverage, and 80-90% of m-insurance clients have not had any prior engagement with insurance (BIMA, 2016).
- **Digital technology comes with limited physical interaction and disclosure.** Accessing insurance via a digital device (mobile phone), platform or interface means there is limited face-to-face interaction in a market where tangibility is a core part of the insurance value proposition. Furthermore, these channels only allow for limited disclosure, due to word or character limitations on digital devices and web-based channels.
- **MNOs have strong bargaining power.** Many MNO industries are often an oligopolies, therefore limiting the choice of MNO partners for insurers or TSPs. MNOs own and control the client base (often very large) and key infrastructure, and are the face of the business to consumer. Additionally, they have vast financial resources and assets – exceeding those of the insurer and other partners in the value chain. This accords stronger bargaining power to MNOs relative to that of insurers.
- **The insurer (and insurance supervisor) has little control over the business model.** Many m-insurance business models are driven by the MNO, their MMP, or by the TSP. In such cases, the insurer is a minor player with little influence and control over the business strategy or conduct. Insurers are technically subject to supervision, but in practice may not be able to ensure that the business is conducted in a manner that meets supervisory expectations or requirements.
- **The speed of technological innovation challenges existing regulatory and supervisory frameworks[31].** Regulatory and supervisory frameworks take time to adapt to changes in the market. Regulation and supervision is often 'reactive' to market developments and supervisors are not necessarily up to date with the latest innovations in technology. "Supervisors need to keep up with the speed at which technical innovations in insurance distribution are being deployed" yet this is often a challenge given their limited technical understanding and knowledge concerning new and innovative models (IAIS, 2015a).

30 GSMA, 2018. https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2018/03/GSMA_The_Mobile_Gender_Gap_Report_2018_Final_210218.pdf
31 IAIS-A2ii-CIMA Mobile Insurance Conference (Munich Re Foundation 2017).

3.2 Prudential risks

Prudential risks[32] arise from the nature of the m-insurance business model and the scale achieved. Prudential risks are those related to the financial soundness of the insurer (IAIS, 2015b). Supervisors interviewed as part of this study shared concerns that m-insurance is an easily accessible alternative distribution model, in which anyone can easily buy the product. In principle, all insurance operations require robust technical and actuarial skills, capacities to accurately assess the risk profile of m-insurance customers and hence, adequately underwrite products. It is the view of some interviewees that m-insurance requires minimum actuarial analysis and underwriting due to the low premiums, low sums assured, short-term contracts and policies which are all characteristic of typical m-insurance policies. However, insurance supervisors have indicated that the size of the typical m-insurance risk pool is often larger than that of conventional insurance products, therefore this requires sound and prudent actuarial calculations to ensure adequate underwriting, sustenance of operations and manage systemic risk (Abayo, 2016). Importantly, the nature of the m-insurance value chain means there could be instances where non-insurance players conduct insurance core functions such as product development, underwriting or product pricing, and they may not be adequately suited or licensed to do so. Table 3 summarizes the prudential risks identified in the online survey and interviews.

Table 3. Overview of prudential risks related to m-insurance

Prudential risk	Description	Source of risk	Potential impact
Technical risk or insurance risk (includes underwriting risk)	Various kinds of risk associated with technical or actuarial bases of calculation for premiums and technical provisions, as well as risks associated with operating expenses and excessive or uncoordinated growth.	• Lack of actuarial and underwriting expertise, whether within insurer or because key insurance functions are outsourced to TSPs and MNOs with no such expertise.[33] • Lack of control over the risk profile of policyholders as anyone can buy policy via mobile phone.	• Premium rates may be too low or too high. • If premium paid by MNO or consumer is too high, client value decreases. • If premium rates are too low or non-viable product design, this leads to poor profitability and product performance. • Claims frequency or claims amounts, or the expenses for administration and settlement are higher than expected. • In the worst-case scenario, the company may no longer be able to fully meet its claims obligations to the policyholder/insured.

32 Risks for solvency purposes "should include, at a minimum, underwriting risk, market risk, credit risk, operational risk, liquidity risk and may also include, for example, legal risk and risk to the reputation of the insurer" (IAIS, 2017).
33 It is outside of the scope of this study to address how premiums, commissions, fees and over riders are apportioned.

Prudential risk	Description	Source of risk	Potential impact

Operational risk[34]	The risk arising from the inadequacy or failure of internal systems, personnel, procedures or controls leading to financial loss. Operational risk also includes custody risk.	• Weakened business processes, internal controls, internal/external audits, reporting, segregation of duties, reconciliation of accounts[35] due to complex value chain involving many entities (see 'aggregator risk' in Table 4).
		• Agents and salesforce of non-insurance aggregators may not be competent at insurance related processes (see 'sales risk' in Table 4)
		• Reliance of back-office operations on outsourced information technology (IT) infrastructure leading to risk of technological failure (see 'data and technology risk' in Table 4).
			• Human failures such as agent fraud or misconduct e.g. mis-selling.
			• IT-related failures such as:
			  ◦ Customer accounts do not show contributions;
			  ◦ Reconciliation with MMP or MNO not effective;
			  ◦ Payments made to an aggregator may be lost;
			  ◦ Loss of transaction data such as premiums received and claims paid; and
			  ◦ Leak of confidential client data.
			• All these factors lead to a knock-on effect that affect the financial performance of the insurer.

Legal or regulatory risk (or compliance risk)	The risk arising from non-compliance due to change or uncertainty in law and regulations leading to financial loss.	• Lack of clarity concerning the applicable law or regulations due to multiple authorities and frameworks.
		• Absence of law or regulations due to the novelty of the business model, channel or technology that is currently not recognized.
			• Unexpected breach of regulations and potentially leading to supervisory corrective measures or sanctions, which could range from being required to:
			  ◦ change business practices or model e.g. sales and marketing, technological platform;
			  ◦ withdraw product line;
			  ◦ terminate partnership with MNO or TSP; and
			  ◦ pay fines and penalties.
			• Could also cause long-term reputational damage to the insurance sector.

34 According to latest discussions in the IAIS, "Operational risks" needs to be seen not only as a key element from a prudential perspective (insurer solvency), but also needs to consider its conduct of business aspects (fairness to consumer). As such, operational risks lies at the intersection of prudential and conduct of business spheres.

35 IFC Digital Financial Services and Risk Management Handbook, 2016 (IFC , 2016).

Prudential risk	Description	Source of risk	Potential impact
Outsourcing risk	Risk arising from outsourcing i.e. an arrangement between an insurer and a service provider for the latter to perform a process, service or activity, which would otherwise be performed by the insurer itself. Outsourcing risk is unique in that it could lead to any prudential or conduct of business risk depending on the nature of activity outsourced.	• Insurer has reduced oversight and control over functions that have been outsourced. • Partnerships may fail especially where there are multiple parties involved i.e. MNO and TSP. • External entities do not have a sufficient standard of financial soundness, competence or expertise.	• If a core activity such as product development is outsourced, it could heighten technical risks. • If back-office processing is outsourced to external IT infrastructure providers, it could heighten operational risks. • Third parties who fail to perform could also heighten compliance and reputational risks. • Outsourcing could heighten conduct of business risks e.g. claims not being paid. See Section 2.2 for more details.

In summary, ability of m-insurance to achieve scale could amplify prudential risks. M-insurance's ability to quickly achieve high volumes of scale is a double-edged sword. While it can significantly increase access to insurance, such rapid growth could lead to insurers writing a large proportion of their business via m-insurance. In the event that there are mass claims, this could lead to serious liquidity issues and challenges. Should there be high claims frequency and millions of individuals claim at once (even if claims amounts are small), this could put significant strain on the underwriter's capital base. If this leads to the insurer having to abruptly terminate the scheme or, worse, exit from the market, it could cause market backlash and a loss of consumer confidence in the insurance sector as a whole.

3.3 Conduct of business risks

The majority of risks identified in the survey and interviews are conduct of business risks. Conduct of business risk can be described as "the risk to customers, insurers, the insurance sector or the insurance market that arises from insurers and/or intermediaries conducting their business in a way that does not ensure fair treatment of customers" (IAIS, 2015b). The most pressing issues highlighted are set out in Table 4. It is worth noting upfront that some risks may overlap including:

- **Customers are not aware of having coverage.** This is due to the unique nature of digital/electronic contracting via mobile phone. At the enrolment stage, customers may not be aware that they have subscribed due to features such as auto-enrolment. Even if they take more conscious steps to enrol e.g. via a call centre, they may forget if they only receive a confirmation via SMS. When the policy expires, they may also forget to renew.
- **Customers do not understand the product.** Customers may not fully understand key product information such as the terms of coverage or even the identity of the insurer due to the digital interface[36] of m-insurance limiting the amount of information transmitted, juxtaposed with the poor levels of literacy that characterise the low-income market.
- **Low client value.** M-insurance products may not necessarily deliver value to the clients or they may not be suitable for client's needs. Customers may also perceive them to be of limited value if there is low utilization (due to unfamiliarity with engaging with insurance via digital channel) or the perception that very few claims are paid (Andoh, 2017). Interviews also revealed that there are very low m-insurance claims ratios observed in some jurisdictions. For example in Tanzania, one product had a claims ratio of 4% (Abayo, 2016).
- **Products may be abruptly withdrawn and have a limited life span.** Partnership dynamics, such as a misalignment of incentives, may cause the partnership to fail, thus affecting the m-insurance product life span. M-insurance also competes with other value-added services (VAS) offered by MNOs to their clients, such as ring-tones or horoscopes. A product may be abruptly withdrawn or sudden changes may be made to an existing product. This could be due to either a change in strategy or because the MNO does not see a strong business case for m-insurance.
- **Mis-selling by TSP and/or MNO agents or sales staff.** M-insurance is often sold and distributed via the TSP, MNO or MMP staff or agent network and call-centres. These individuals often do not have the necessary insurance training and qualifications to provide customers with suitable and important information concerning the product, including the terms and conditions. This is especially the case for MNOs sales staff, given that insurance is not the core product for an MNO. High levels of staff or agent turnover – as is common with mobile money agents - may make this more challenging. A recent study in Tanzania revealed that limited information is disclosed to m-insurance clients during the sign up process. For example, only 41% of clients indicated they were informed of the terms and conditions (Abayo, et al., 2017).

36 Clients typically engage with m-insurance via digital interfaces like USSD (Unstructured Supplementary Service Data) where data transmitted between an application/program and client via SMSs. There is limited space (character and texting limitations) and as a result key information such as disclosures, operative clauses may not be properly communicated.

Table 4. Overview of conduct of business risks and issues

Conduct of Business risk	Description	Source of risk	Potential impact
Sales risk	Risk arising from an aggregator salesperson or sales channel misrepresenting or selling inappropriate products to the customer. It can arise when an insurer accesses the customer base of a non-insurance third party to sell its products.	• The MNO or TSP salesperson is not adequately trained. • Sales incentives are misaligned with the interests of the customer. • Lack of oversight over the conduct of MNO or TSP salesperson. • MNO communication channel is broadly targeted - product can be marketed at and quickly purchased by anyone as long as they are an MNO client. Insurer has no control over risk profile of the clients.	• Misconduct such as fraud or mis-selling by agents or sales staff. • Clients end up buying products they do not need, nor know how to use.
Aggregator risk	Risk of reduced customer value and inappropriate products being sold to customers when an insurer accesses the aggregated customer base of a non-insurance third party to sell its products.	• Bargaining power imbalance between the MNO, insurer or TSP. • MNO incentives are misaligned with the interests of the customer or insurer (to reduce customer churn rather than insurance-related client value or financial soundness of insurer). • The legal relationship and responsibilities between insurer, aggregator and client may be unclear.	• Disproportionate costs to client due to the remuneration structure i.e. high commissions or partner fees translating into higher premiums. • Reduced client value as products do not fit client's needs or are too expensive. • Lack of clear accountability over aspects affecting consumer treatment e.g. post-sale servicing.

Conduct of Business risk	Description	Source of risk	Potential impact
Policyholder awareness risk	Insured is not aware that the cover exists, does not understand the terms of cover or related processes and amount of coverage. They are unable to make a claim should the risk event occur. The beneficiary may receive some money but cannot verify the cover amount.	• The communication mode used (e.g. SMS, website, call center) impedes adequate and timely disclosure. For example, policy contracts provided by publishing standard policy wording on a digital device or website have a low chance of being read and understood. • Where customers can register with one reply-SMS and they do not need to provide any information, policyholder awareness may be particularly low. • In business models where the MNO or TSP does not send customers regularly SMS updates (by comparison, BIMA sends a monthly SMS to customers to inform them of the value of insurance premium, cover etc.) • Low level of financial and insurance literacy for new-to- insurance consumers in many m-insurance markets.	• Crucial product information is not passed on and understood by customer. • Insured parties do not claim when risk event occurs. • Claims are rejected because insured/beneficiary does not understand the conditions or process. • Client unknowingly pays for an unwanted product or renewal. • Policyholders may unintentionally lose cover.

Conduct of Business risk	Description	Source of risk	Potential impact
Payment risk	Risk that the premium will not reach the insurer, that the premium will not be paid on the due date or that the cost of collecting the premium is disproportionate.	• Value chain comprising multiple entities (MNO, TSP, MMP) could delay payment of the premium collection by the insurer. • Agents may defraud clients during the course of facilitating the transfer of payments, i.e. when advising on the usage of mobile services. • Costs of the payment platform are disproportionate to the premium level. • Connectivity challenges or other technological glitches impact on the speed or reliability of payments (also if premiums are converted from airtime).	• Cover does not take effect, leaving the customer unknowingly uncovered and exposed to risk. • TSP or MNO may default on the premium. • Coverage duration is often for one year, or even one month and if the policyholder misses one payment there is no grace period (as with some microinsurance products).
Post-sale risk	Risk that customers face unreasonable post-sale barriers to maintain their cover, change products, make enquiries, submit claims, receive benefits or make complaints.	• Lack of clear accountability over post-sale servicing due to multiple entities (between TSP, MNO and insurer). • Customer may be unfamiliar with how to use the technology or engage with their mobile device for insurance transactions. • Clients do not have access to recourse channels.	• Customers may not know who to contact when making enquiries, and complaints or obtaining recourse. • Policyholders do not claim when risk event occurs.

Conduct of Business risk	Description	Source of risk	Potential impact
Data and technology risk[37]	Risk related to failures or disruptions to the mobile/ technology platform used to sell, distribute and administer the m-insurance product.	Reliance on external technological and data infrastructure, which could result in the following issues: • Data system is not secure especially if provided by unregulated entities; • Quality of mobile technology or public infrastructure e.g. internet connectivity; • Underwriter's operational systems do not provide correct, complete and up-to-date data on how the business is managed; and • Usage factors e.g. e-documents are less tangible and may be easier to lose especially for policyholders (or the policyholder may also lose their mobile phone).	• Policyholder or business data may be lost or corrupted which may lead to difficulty in making claims. • Cyber fraud can occur. • Policyholder may not receive or know how to access policy documentation. • If customer changes their mobile number, client data can be lost as their mobile phone number is the primary client identifier. • Impediments from the technology itself e.g. if an insurance contract is only available on the mobile device via a data plan, this may be an issue if the network is out of order or client does not have access to the data.

37 Adapted from Issues Paper Conduct of Business in Inclusive Insurance (IAIS, 2015a). The paper identifies six risks related to the business model; however, the data and technology risk was added here.

4. Regulatory considerations

Most supervisors are aware of the increasing prominence of m-insurance, and a number are concerned about the emerging risks from increased m-insurance activity in their markets. M-insurance is currently supervised under existing laws and regulations; however, some aspects of activity may be insufficiently covered. Considerations to develop tailored regulatory approaches, whether via a dedicated framework or by integrating m-insurance aspects into existing legal and regulatory structures, are in early stages of development and consideration in most countries. Nevertheless, some supervisors have already implemented regulatory or supervisory changes, or are planning to take such action in due course.

4.1 Current regulatory approaches

Most supervisors still rely on existing regulatory frameworks to supervise m-insurance. M-insurance is subject to the relevant provisions under current insurance legal and regulatory frameworks and various regulatory categories among the majority of supervisors interviewed (see Table 5 and 6).

Table 5. Categories of regulation applied for m-insurance

Regulatory category	Countries
Intermediaries, alternative distribution regulation, insurance representatives	• Brazil • Chile • CIMA • Indonesia[38] • South Africa
Remote communication	• Brazil
E-commerce regulations	• India • Indonesia[39] • Philippines
Digital finance regulations	• Indonesia[40]
Group policy regulations	• Brazil • South Africa (from 1 January 2018)
Microinsurance regulations	• Brazil • CIMA • Ghana • Indonesia • Kenya • Philippines • South Africa (from 1 July 2018) • Tanzania
Outsourcing regulations[41]	• South Africa • India

38 M-insurance will be regulated as part of insurance distribution channel regulation.

39 In Indonesia, e-commerce is regulated under trade law and electronic transaction law.

40 "Indonesia plans to introduce digital finance regulations that are tailored to the different/various divisions of the financial sector. In the future, the insurance supervisor, the Financial Services Authority (Otoritas Jasa Keuangan, OJK), may issue digital finance regulation for each sub-sector of the financial sector. Currently, the digital finance regulation does not cover insurance transactions.

41 Outsourcing of insurance activities: outsourced to third party by insurer

A variety of existing regulations are currently applied to regulate and supervise m-insurance. Supervisors have often adopted a reactive approach i.e. in response to products that have been introduced to the market; or to engagements with players in the value chain that approached the supervisor e.g. introductory conversations with TSPs or MNOs. Currently, this approach has been to identify the 'best-fit' solution under existing legal and regulatory structures, based on priorities or an assessment of the situation. Table 6 sets out the various regulatory approaches to m-insurance currently being implemented as per feedback from the online survey and interviews.

Table 6. Types of regulation applied to m-insurance provision

Regulation applied	Treatment of m-insurance
Agent or broker regulation (including microinsurance intermediary)	• Some supervisors are licensing TSPs and MNOs, those who perform insurance functions, as brokers or corporate agents, or as microinsurance intermediaries, providing the supervisor oversight over their insurance-related activities; e.g. South Africa. • Some TSPs are formally registered as corporate agents but conduct the activities of brokers in practice e.g. Tanzania. • In some jurisdictions, such as the Philippines and South Africa, call-centres soliciting insurance must be registered as brokers or agents. • Microinsurance agents or brokers: Some supervisors license and regulate TSPs as microinsurance intermediaries; e.g. Ghana and Philippines have microinsurance brokers.
Microinsurance product regulation	• Microinsurance products: Some supervisors currently regulate m-insurance product features through their microinsurance regulations, which among others stipulate the required product standards for any microinsurance product prior to approval or launch, e.g. in Brazil, CIMA, Ghana (some jurisdictions have or plan to have dual regulation for m-insurance, digital insurance and microinsurance: e.g. Ghana and Indonesia).
M-insurance product regulation	• M-insurance products: Ghana is the first supervisor to have regulated m-insurance product features. For some products, the regulation cross-references to the provisions of the microinsurance regulation (see also Box 6 and Annex)
E-commerce regulations	• In the Philippines, m-insurance is covered under e-commerce regulations for insurers, which apply to any kind of sale of insurance through the internet and/or are supported by the mobile as a medium. Disclosure is required to be in PDF format, which cannot be changed and can be printed. A master policyholder is permitted for group insurance policies and can use the PDF format to inform members of their coverage.
Digital financial service regulations	• Indonesia plans to introduce digital financial service regulations that will cover all financial services and also include m-insurance.
Outsourcing regulations	• In some jurisdictions (e.g. South Africa and India), entities in the value chain are registered according to the function and activity they perform: most activities conducted by third parties would be considered as outsourcing. However, should any entity perform a function or functions that are defined by insurance regulations as those of an intermediary, entities are be required to register as an intermediary. South Africa indirectly supervises outsourcing parties by placing requirements relating to outsourcing on the insurer and also, conducting on-site inspections at outsourced parties to ensure that the insurer is indeed complying with the requirements.
Remote communication regulation	• Usage of remote communication means "those that allow exchanging of accessing information or any type of data transfer via communication networks involving the use of technologies, such as public or private internet, telephone, cable or digital TV, satellite communication systems, mobile phones etc.", e.g. in Brazil. • General regulation on insurance commercialization through media for communication at a distance, e.g. in Costa Rica.

In most jurisdictions, regulations have yet to be adapted to the unique nature of m-insurance. Some supervisors have taken active steps to facilitate the development of m-insurance business models, by making exemptions, or flexibly interpreting existing regimes to allow TSPs to act as insurance intermediary. However, several supervisors confirmed that their current regulatory frameworks need to be enhanced or updated to better respond to m-insurance risks. The most pressing concerns mentioned were:

- **Supervision of non-insurance parties:** The non-insurance parties (MNOs, MMPs and TSPs) in the insurance value chain and their activities cannot be adequately supervised. Their current regulatory frameworks are unsuitable for the nature of these providers and the roles they are playing.
- **Product approval and service level agreement:** M-insurance is a unique product requiring specialized technical skills to ensure appropriate pricing and underwriting, and to integrate new technology into its design, administration and marketing. Insurance supervisors do not often have these specialized technical skills. For example, their staff may lack clarity about the criteria for approving such products and the related service level agreement. Some supervisors e.g. Ghana and Tanzania, require the service level agreement between the partners to be presented during product submission. At times, the service level agreement is jointly approved with the telecommunications authority (e.g. in Ghana, Kenya, South Africa and Tanzania).[42]
- **Disclosure and policyholder awareness:** Disclosure via mobile platforms and devices is limited. There is a need to ensure that clients are adequately informed about the product and its terms and conditions. E-contracting and e-documents add to the issues.
- **Allowing for pilots:** In instances where products are approved as an exemption, the insurance supervisor is aware of the existence of the products and able to monitor developments of the pilot (e.g. in Ghana).

4.2 Mobile insurance cuts across multiple regulatory jurisdictions

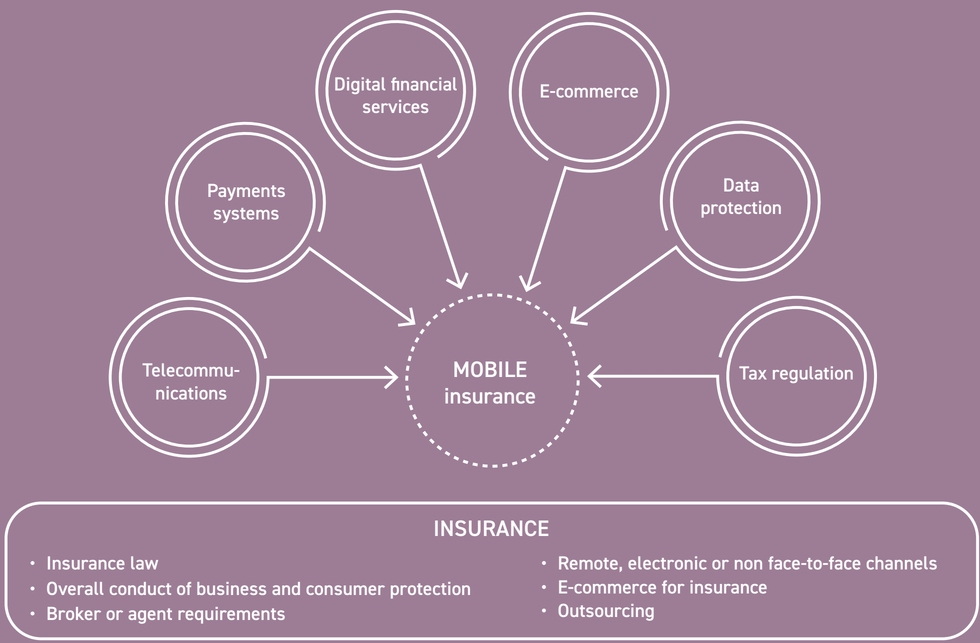
Multiple laws, regulations and authorities beyond the insurance or financial sector apply to m-insurance (see Box 5). The provision of m-insurance is typically subject to at least six other regulatory ambits under the purview of other or multiple authorities.[43] It is often challenging to clearly understand what exact requirements apply to m-insurance. This significantly impacts business considerations, as it creates a legal or regulatory risk and may hence deter insurers or other partners from entering the market or staying engaged. It also affects the ability of the insurance supervisor to adequately supervise m-insurance or develop a new regulatory approach. This is because the supervisor may not have jurisdiction over key entities or activities. In some cases supervisors are unclear about the regulations that apply to m-insurance and may unknowingly set requirements that conflict with non-insurance regulations.

42 In Tanzania, the approval is not done jointly, however, the insurance regulator requires that all the necessary approvals (from the Central Bank and telecommunication regulator) be first secured. For example, if the Central Bank (Bank of Tanzania) has a process that it supervises, then that approval must first be submitted and obtained. If the telecommunications regulator (Tanzania Communications Regulatory Authority) requires that certain conditions must first be met and the respective approval granted. The approvals must be submitted accordingly.

43 In Tanzania, reference is made e.g. to the Central Bank Act, Cyber Crimes Act and Electronic Transfer Act.

BOX 5 | Legal and regulatory scheme for m-insurance

Regulatory ambits influencing m-insurance



M-insurance application of various regulations and issues to consider

Authority and regulatory ambit	Applies to	Issues to casider
Insurance supervisor Insurance law and regulations	Insurers and/or interme-diaries	**How the features of m-insurance fit under current insurance law and regulations; e.g. whether:** • Insurer has reduced oversight and control over functions that have been outsourced. • Partnerships may fail especially where there are multiple parties involved i.e. MNO and TSP. • External entities do not have a sufficient standard of financial soundness, competence or expertise. **How being subject to these respective regulations would affect business considerations vis-à-vis supervisory objectives, i.e. whether:** • the insurer, MNO or TSP can execute the intended business model while being compliant with regulations; • these resulting requirements are adequate in meeting supervisory ob-jectives of financial soundness of the insurer and consumer protection.
Telecommunica-tions authority Telecommuni-cations law and regulations	MNOs	**Whether the insurance supervisor is able to influence or retain oversight over certain aspects of MNO activities, e.g. to address:** • appropriate conduct of the MNO; • transparency issues such as transparency over airtime deductions; • data protection concerns such as policyholder data ownership; • consumer protection concerns such as mis-selling; • m-insurance market development by enabling MNO to conduct activities such as selling insurance.

Authority and regulatory ambit	Applies to	Issues to casider
Central Bank Digital finance and Payment systems regulation[44]	MMPs MNOs when engaged in payments	**Whether the insurance supervisor needs or is able to influence or retain oversight over payment transactions in the m-insurance business model. E.g.** • airtime deduction: The Central Bank may allow or disallow airtime deduction for insurance premiums. However, airtime deduction is a key element of many m-insurance business models. In one country airtime was disallowed because there were numerous consumer complaints; • payment via mobile money: Mobile money (or e-payment) regulation is also issued by the Central Bank, which enables payments via mobile wallets. Not all Central Banks currently allow MMPs, like Orange Money, or Airtel Money; • forthcoming e-payments or mobile money regulations: In the meantime, the MNOs serve as MMPs without being licensed as such with the Central Bank. In other countries, it is often the MMPs who acts as the partner of the insurer. Central Bank regulations for mobile money were not identified as a main challenge by supervisors.
Ministry of Trade or Ministry of Commerce E-commerce regulation (some digitalization issues)	All businesses (entire m-insurance value chain)	**Whether insurance supervisor has jurisdiction to supervise e-contracting (and related procedures) across the m-insurance value chain as there may be:** • conflicts between general e-commerce law and insurance laws/regulations pertaining to contracting. E.g. e-signatures may be permissible in general law (which may be applicable to MNOs and TSPs) but may not be permissible in insurance law/regulations. This may also create regulatory uncertainty; • a lack of regulatory clarity concerning management of electronic transmission of data including documentation and client data e.g. minimum security protocols required pertaining protection of client data; • transaction limits placed on e-transactions e.g. if transaction limits may impede payment of claims (or even payment of premiums).
Ministry of Finance Tax regulation	All businesses (entire m-insurance value chain)	**Applicable taxation regime for mobile premium payment platforms (mobile wallets, airtime deduction etc.) and their impact on the m-insurance business model:** • The impact of value added taxes (VAT) on airtime on affordability and viability of m-insurance. E.g. adding 20% VAT on premiums make premiums significantly more expensive and raises the question of client value i.e. whether it is a justifiable trade-off against the convenience for customers. However, in the absence of other payment modalities, this may still be justifiable.
Data protection agency, or national identity authority Data protection regulation	All businesses (entire m-insurance value chain)	**Applicable data protection regime will determine how and if m-insurance client data is protected and whether all parties in the value chain must comply:** • Where there is an existing data protection regime applicable to all parties in the value chain and whether it is sufficient to protect the insurance consumer's data. • Whether intersection between applicable insurance law/regulations and data protection law or regulation will suffice in ensuring adequate client and insurer data protection across all players and activities in the m-insurance value chain. • Not all jurisdictions have data protection regulation or measures, and supervisors may have to formulate the necessary requirements under insurance law/ regulations.

44 "This includes all the systems, mechanisms, institutions, agreements, procedures, rules and laws that come into play from the moment an end-user, using a payment instrument, issues an instruction to pay another person or a business, to the final interbank settlement of the transaction in the books of the central bank" Overview (PASA, 2017).

4.3 Regulatory changes under consideration

All supervisors agree that m-insurance comes with heightened risks but regulatory approaches vary. Of the 26 insurance supervisors that participated in the survey: Almost half of the supervisors saw no immediate need to modify regulations. Some stated that existing laws and regulations that apply to intermediaries and third parties, microinsurance or e-commerce are adequate for m-insurance supervision. Some markets still have no or low levels of m-insurance activity and no TSPs are active yet in their markets. Therefore m-insurance is not currently a regulatory priority in these countries. Generally, supervisors stated they are open to further deliberation concerning the regulation and supervision of m-insurance should the need arise, or in the event when an m-insurance product provider engages with them.

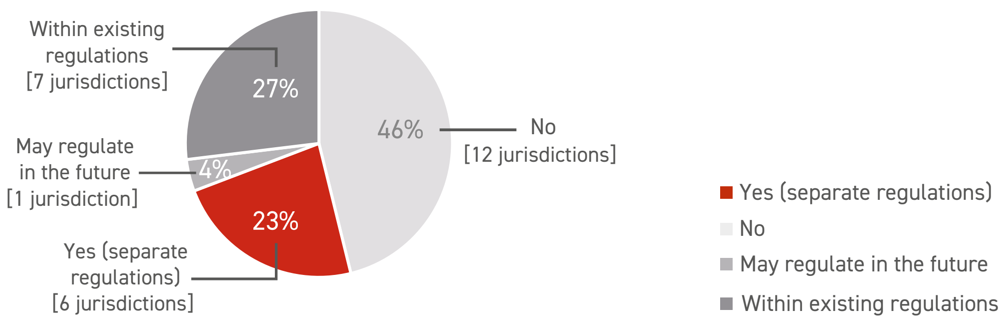
M-insurance can operate within regulatory loopholes. Currently, all but three supervisors have adopted special regulations for m-insurance or some aspects of it. As of April 2018, three jurisdictions (Ghana, Pakistan and Philippines) interviewed or surveyed had issued regulations concerning m-insurance (which was not yet in place at the time of the survey/interviews at end 2016). Some supervisors acknowledge that m-insurance is currently allowed to operate by leveraging regulatory loopholes. In some cases, insurance supervisors have been identifying that regulatory loopholes exist.

Several supervisors are undertaking steps to regulate m-insurance or digitalization of insurance. Out of the 26 supervisors included in the online survey (as of end 2016):

- 13 jurisdictions (or 50%) perceive a need to adjust the regulations that apply to some aspects of m-insurance business (see Figure 5 below). Out of these:
    - 6 (or 23%) jurisdictions indicated that they are planning to develop **separate regulations** for m-insurance (CIMA, Ghana, Indonesia, Pakistan, Tanzania, Uganda);
    - 7 (or 27%) jurisdictions plan to **integrate m-insurance** into other existing regulatory and supervisory provisions (Brazil, Chile, Costa Rica, India, Kenya, Philippines, South Africa)
    - (or 8%) are planning a **combined approach**, i.e. using a combination of new regulations on m-insurance and digitally-supported insurance more generally (CIMA, Ghana – which has in the meantime adopted the regulation, Indonesia).
- One supervisor indicated at the time of the survey (end 2016) that it may regulate m-insurance in future. However, between 2017 and 2018, three supervisors have already issued specific provisions pertaining m-insurance (Ghana, Pakistan, Philippines).

Figure 5: Taking steps to regulate m-insurance (as of July 2017)

Have you taken, or are you considering taking steps to regulate or supervise mobile phone-based insurance ?



Some supervisors are considering whether to implement any regulatory change. Supervisors are still trying to understand the risks and challenges, particularly relating to partnerships and the fair treatment of consumers. In turn, they are considering how and where exactly to adjust regulations. Some supervisors interviewed do not see the need to regulate m-insurance. This is because: firstly, there are no m-insurance products in their particular jurisdictions or m-insurance customer enrolments are quite low and therefore posing little risk; and secondly, m-insurance is not a priority and there are other areas that require more urgent attention.

4.4 Key areas to consider or cover in regulating m-insurance

In the absence of a dedicated m-insurance regulatory framework, a number of key areas and issues should be considered by insurance supervisors in order to ensure regulatory frameworks adequately accommodate m-insurance.

A regulatory approach to m-insurance should be proportionate to the nature and scale of the arising risks. M-insurance raises a host of prudential and conduct of business risks and creates new ones. However, the nature and scale of these risks differ depending on the magnitude of the m-insurance business relative to the insurer's other business, the partnership model, the kind of products sold, the marketing strategy and the segment accessing these products, and also, the level of oversight the supervisor has over non-conventional partners. From the study, a number of key issues have emerged which deserve deeper consideration by supervisors who decided that they need to change their regulatory approach.

4.4.1 Area 1: Definition of m-insurance needs to allow for the regulatory delineation of this business

A clear regulatory definition of m-insurance is required when a jurisdiction seeks to develop a tailored regulatory approach for m-insurance. Supervisors intending to adopt a tailored approach for m-insurance products or mobile-supported business models need to provide a clear demarcation of such business. This is similar to how jurisdictions have defined microinsurance or mass insurance when they first developed a regulatory approach for such lines.[45] As of April 2018, one jurisdiction (Ghana) has developed an in-depth definition of m-insurance in their m-insurance regulation (see Box 6). In some cases there may be an overlap with definitions of microinsurance regulations depending on the regulations in each country. Ghana has dealt with this challenge in their new m-insurance regulations of November 2017, stipulating that "If a mobile insurance contract is approved as a microinsurance contract under the Market Conduct (Microinsurance) Rules, 2013, those Rules apply to the contract and the marketing and sale of the contract in addition to these Rules".

45 See also: Lessons from a Decade of Microinsurance Regulation (A2ii, 2016)

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BOX 6 | Definition of m-insurance in Ghana

Meaning of "mobile insurance" or "m-insurance"

23. (1) Mobile insurance or m-insurance is any arrangement between a licensed insurer and a mobile network operator under which the mobile network is used as a means of distributing an insurance contract of the licensed insurer to policyholders and potential policyholders.

(2) Mobile insurance includes, but is not limited to, an arrangement under which:

(a) the MNO acts as an insurance agent for the licensed insurer;

(b) the MNO enters into a group insurance contract, as master policyholder, with the intention of providing insurance coverage to its customers, as members;

(c) the MNO acts a platform-only provider.

(3) An arrangement under subparagraph (1) includes a multi-party arrangement under which persons other than the insurer and the MNO provide administrative, technical or other services, whether to the insurer, to the MNO or to both the insurer and the MNO, whether as an insurance agent of the insurer or as an outsourcing service provider.

(4) For the purposes of determining whether an arrangement falls within subparagraph (1), it is not necessary to consider who pays the premium payable under the contract to the insurer and in particular, whether the premium is:

(a) paid by the MNO without direct or indirect recourse to the insured person or any beneficiary under the insurance contract;

(b) paid by the MNO but recovered in whole or in part either directly or indirectly from the insured person or beneficiary; or

(c) paid directly by the insured person or beneficiary.

Meaning of "platform-only" mobile insurance and "platform-only provider"

24. (1) Platform-only mobile insurance is mobile insurance provided through an arrangement under which the MNO provides an insurer with access to its mobile platform for the distribution of an insurance contract where the MNO:

(a) does not undertake any regulated activities in relation to the arrangement; and

(b) does not enter into a group insurance contract as a master policyholder.

(2) For the purposes of these Rules, a mobile network operator that provides platform-only mobile insurance is referred to as a platform-only provider in relation to that mobile insurance.

Source: Market Conduct (M-insurance) Rules, National Insurance Commission (NIC), November 2017

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IAIS is in the process of adopting a simple definition. At a global level, the IAIS is working towards such a definition in the upcoming Application Paper on the Use of Digital Technology in Inclusive Insurance.[46] The public consultation of this paper ended in March 2018, hence, the paper will be adopted within the coming months. According to the draft IAIS paper, *"Mobile insurance" (m-insurance) refers to any insurance which is sold or subscribed to through a mobile phone and/or in partnership with a mobile network operator (MNO).* The paper also refers to the term e-insurance (in an example related to CIMA), which refers to *"electronic insurance and covers insurance provided through digital means. M-insurance fits within this definition."*

Supervisors see various options for defining m-insurance. A regulatory definition for m-insurance could include the product types (an electronically supported product), the entities involved (value chain stakeholder, channel, the technological platform) and their specific functions in the value chain. The use of mobile technology (hardware and software) is a common denominator among the different m-insurance business models. Interviewees discussed several proposals for definitions:

- **Channels:** Some jurisdictions see m-insurance as insurance provided via mobile technology that is classified under the broader category of remote channels, e-channels, or non-face-to face channels. In these cases, m-insurance is subject to all regulations that apply to such channels.
- **Entities involved:** Some supervisors demarcate m-insurance business according to the entity involved in providing it, i.e. the partners in this business. In these cases, m-insurance is deemed to be insurance provided via a TSP as dedicated intermediary, or a MMP or a MNO. The TSP or MNO, given its role in selling the product, are often licensed as an intermediary (see chapter 4.4.2 below).
- **Activity:** Some insurance supervisors do not necessarily distinctly define m-insurance according to channel or entity involved but rather focus on defining the activity conducted. The decisive factor is whether it is an activity that typically falls within the insurance value chain. In some jurisdictions entities in the value chain are registered according to the function and activity they perform; hence, most activities conducted by third parties would be considered as outsourcing.

BOX 7 | Forthcoming CIMA definition of m-insurance

CIMA plans to introduce two sets of regulation dealing with m-insurance –m-insurance regulations and digital insurance regulations. In the forthcoming m-insurance regulations, m-insurance will be a part of microinsurance. Mobile microinsurance will be defined as "microinsurance, which uses mobile phones or digital technology to access customers". The digital insurance regulations, which are also envisaged to follow, will cover all insurance business and will make provision for the licensing of TSPs as intermediaries.

Source: Interviews with West African insurance supervisors (end 2016)

46 https://www.iaisweb.org/file/71949/draft-application-paper-on-the-use-of-digital-technology-in-inclusive-insurance-for-public-consultation

4.4.2 Area 2: Oversight of non-insurance entities

Non-insurance entities are key players. The oversight of non-insurance entities is based on the concern that such entities may not be adequately suited, qualified and licensed to conduct core insurance functions. Many jurisdictions already have regulatory responses in place for non-traditional players in the insurance value chain. Others are still considering if that is the right way of classifying them or are looking into a new framework altogether.

Non-insurance stakeholders conduct important functions in the value chain. Even in models, where no TSP is involved the MNO would typically conduct sales and marketing activity or provide the means for premium transactions. In more complex models, a TSP leads product development distribution strategy, process claims and is in charge of back-office management. Sometimes the entire value chain, short of underwriting, is outsourced and managed by a TSP. In complex models with various players, it is especially important to ensure that these entities and their activities (often outside the insurance supervisor's purview) are adequately supervised. A key issue can be client data. For example, as the MNO owns the client data, the MNO may share it with the MMP or the TSP but not necessarily the insurer. In cases where a partnership ends, the insurer or the insurance supervisor may not be able to access policyholder data, generating all kinds of issues. In addition, the insurance supervisor cannot enter the premises of an MNO if it does not have an intermediary license (as is the case in the CIMA region).

How non-insurance stakeholders are supervised can be ascertained by examining their roles in the value chain. The more critical their functions, or the higher the prudential or conduct of business risk arising from their activities, the more intense the supervisory oversight should be. Supervisory oversight can be direct, where supervisors supervise the entities directly, or indirect, where supervisors require insurers to retain oversight over the sub-contracted entities. Direct supervision usually involves licensing the entities directly, typically as brokers or general agents. For example, if the MNO is registered as intermediary, the insurance supervisor gains jurisdiction over the MNO. Most TSPs are licensed as brokers (see Table 7). On the other hand, a common approach to indirect supervision is via outsourcing regulations, where insurers enter into service level agreements with TSPs who act as service providers and insurers are required to retain a minimum degree of oversight and control over TSP activities. In some jurisdictions, registering the entities as agents is also a form of indirect supervision. This is because the insurer and not the supervisor is accountable for supervising agents and ensuring their compliance with regulations. Depending on the roles and entities involved, supervisors would likely need to coordinate or collaborate with the other supervisory authorities involved.

Table 7. Treatment of the m-insurance intermediary or TSP

Jurisdiction	Treatment of the m-insurance intermediary , TSP or others
CIMA	• Even though TSPs operate like brokers with an agent force, they are currently not registered or licensed as brokers. • The forthcoming m-insurance regulations will not yet require TSPs to be registered. However, it is anticipated that TSPs may be required to source licences with the forthcoming digital insurance regulations.
Ghana	• In the past, global TSPs were licensed as microinsurance intermediaries and permitted to deal only with microinsurance products. MNOs were licensed as corporate agents and as such could only deal with one insurer. • However, the new m-insurance regulation of November 2017 provides for different and more detailed provisions (see Box 6 and Annex 4).
India	• Transcripts of call centres need to be filed with the regulator; they are not approved but the regulator picks samples and check them.
Indonesia	• TSPs are currently not licensed and the insurance supervisor treats the products they provide as pilot projects because there are currently no laws regulating aggregators and non-traditional distribution channels. Therefore, TSPs operate within a regulatory loophole as the currently regulatory framework does not accommodate their licensing. • Most business models are driven by the MNOs. • Call centres are used by insurers to sell products and do servicing; however, they are not regulated and not all of them are inspected.
Pakistan	• SRO 1236 (I)/2017 of 4th December 2017 came into force on 31st March 2018 but is also valid for existing agency agreements, and including the family and general takaful operators. "Technology based distribution channels" refers to sale of insurance through channels involving technology including, but not limited to mobile phone, internet, telephone etc. whether through involvement of corporate insurance agents or otherwise. The technology provider may or may not be working in the capacity of corporate insurance agent". • Part I regulates the corporate agent. • Part II regulates the sale through technology-based distribution channels i.e. when a MNO (as agent or not) or internet is involved, including stipulations regarding storage and safety of data (the MNO or broker may store data, but it is the responsibility of the insurer to ensure safety of policyholder data), a file and use procedure for such products; communication of terms and conditions through mobile and internet (key facts); and reduced due diligence requirements for annual premiums up to Rs. 50,000 per annum (approx. EUR 370 as of January 2018).
Philippines	• The National Insurance Commission (IC) Philippines issued Circular Letter (CL 2018-07) on 16th January 2018 concerning the use of mobile application for the distribution of insurance products. The circular amends CL 2014-47, which regulates electronic commerce of insurance products, providing the framework on the distribution of insurance products through the internet. CL 2017-07 provides an enhanced framework for the use of mobile phones as distribution channel for insurance products. The mobile application needs to be approved by the Commission. It could either be pre-installed in a mobile device, an item in the subscriber identification module (SIM) menu of a mobile network carrier, or those downloadable via major digital platforms, such as Apple Store, Google Play and Microsoft Windows Marketplace. The application shall only be accessible and used within Philippine territory, and only approved products complying with all insurance rules shall be distributed. The new regulation also provides for a more flexible mode of payment for policyholders, like airtime deduction, billing to the post-paid plan, electronic wallet and others. • The TSP MicroEnsure is licensed as "Microinsurance broker."

Jurisdiction	Treatment of the m-insurance intermediary , TSP or others
South Africa	• There is indirect supervision of outsourcing parties by supervising the insurer and also, on-site inspections. • Where the TSP provides advice or intermediary services, it is registered and supervised as a financial service provider.
Tanzania	• Some service providers in m-insurance are licensed as intermediaries and as such are subject to onsite and offsite inspections. • Other so-called TSPs – those performing only technology support – are not ordinarily insurance licensees, i.e. not required to have an insurance license. • All marketing materials (including those used for m-insurance products) must first be approved by the insurance supervisor.

4.4.3 Area 3: Consumer understanding and disclosure

Limited consumer understanding of their insurance policy is a serious issue for m-insurance providers. This challenge is heightened compared to traditional insurance due to the nature of the m-insurance business model and the use of electronic means for communication and disclosure. The opportunities available in m-insurance to cut administration and transaction costs may lead partners to adopt practices such as reduced documentation and very limited client interaction, leading to consumer's not understanding what the coverage entails, and what they have to do to renew or cancel the policy, and make a claim.

Some supervisors have already taken action, be it regulating disclosure (see Box 8, Ghana) or getting more information on the situation consumers are facing (see also Box 9, Tanzania).

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BOX 8 | Ensuring policyholder awareness in Ghana

Ghana NIC: Market Conduct (Mobile Insurance) Rules 2017

18. (1) A licensed insurer shall prepare a Policy Summary complying with this paragraph in relation to each mobile insurance contract that it will underwrite.

(2) Subparagraph (1) applies whether the product is distributed as the insurer's product, a branded product or a co-branded product.

(3) A Policy Summary shall—

(a) be written in plain and easy to understand language; and

(b) contain a summary of the cover provided by, and the key features of, the contract.

(4) Without limiting subparagraph (2), the Policy Summary shall contain the following information—

(a) the name of the insurer and the address of its principal office in Ghana;

(b) the type of insurance contract;

(c) a description of the risks insured by the contract and any significant or unusual exclusions or limitations;

(d) the duration of the contract;

(e) the principal benefits provided under the contract;

(f) contact details for notifying a claim under the contract;

any obligations on a prospective insured person to disclose material facts before purchasing the contract;

(h) the right to complain and the method of lodging a complaint;

(i) a statement that the Policy Summary does not contain the full terms of the insurance contract, which are to be found in the policy document.

(5) For the purposes of subparagraph (3)(c), a significant exclusion or limitation is one that

(a) would tend to affect the decision of a prospective insured person or prospective insured persons generally to purchase the insurance contract; or

(b) is not normally found in comparable insurance contracts.

(6) The Policy Summary shall not contain any information other than the information provided for in this para graph.

Provision of policy summary and policy document, individual contract

19. In the case of a mobile insurance contract that is an individual contract—

(a) the prospective insured person shall be provided with a copy of the policy summary in sufficient time for the person to make an informed decision about whether to enter into, or renew, the mobile insurance contract; and

(b) the insured person shall be provided with a written insurance policy document on the commencement of the mobile insurance contract or as soon as possible thereafter.

Source: Market Conduct (Mobile Insurance) Rules 2017, NIC Ghana, November 2017

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Mobile technology-driven processes need to innovate in a way that still guarantees fair treatment of the consumer. For example, disclosure processes via mobile technology would understandably be different from printed sheets of paper. The key issue is exploring whether the product, and associated stakeholders, and roles and responsibilities, are still being adequately communicated. Also, there may be a lack of transparency for the client on airtime deductions if the MNO does not make such statements easily accessible for their clients. The example of Tanzania highlights that manifold mistakes are being observed in the sign-up process (see Box 9).

BOX 9 | Ensuring policyholder awareness during sign up in m-insurance in Tanzania

Findings from a recent study conducted in **Tanzania** reinforced the supervisory concerns around inadequate disclosure via mobile phones and other digital channels. One of the key issues investigated was what is disclosed to clients during the sign up or enrolment process. It found during the sign up process:

- Only 25% of m-insurance clients were informed of how to file a claim;
- Only 22% were informed of the maximum eligible claim amount;
- Only 25% were informed of how to file a complaint;
- 41% stated that terms and conditions were disclosed; and
- 59% indicated the registration process was disclosed.

Source: (Abayo, et al., 2017)

4.4.4 Area 4: In what form to effect adequate regulatory changes

As m-insurance cuts across multiple regulatory ambits (see Section 4.2 and Box 5) it can be a challenge to identify where and how to effect regulatory change, or lobby for such. Applicable regulations under both insurance and non-insurance legal and regulatory frameworks would need to be identified and assessed to ascertain how these regulations – or the absence thereof - impact various aspects of the m-insurance value chain, the current m-insurance market, and whether they meet the objectives of the insurance supervisor. If changes are necessary, a supervisor would then need to deploy the best suited form of regulatory instrument to effect these changes, depending on the existing form of rules in place. Lobbying for regulatory changes in other jurisdictions can be an additional task.

Consequently, regulatory changes in insurance could be effected either by riding on existing provisions or creating new ones under a separate regulatory framework. The supervisor would need to assess, based on its own context, which option is more practical and effective. In some cases it might need to be a combination of both especially if certain provisions, such as e-commerce requirements, are based on law and outside the supervisor's purview. In other cases, opportunities arise such as riding on digital financial services regulations underway. Ultimately, it needs to be done in a manner that enables adequate oversight and provides sufficient clarity to the industry, while avoiding duplications and potential opportunities for regulatory arbitrage.

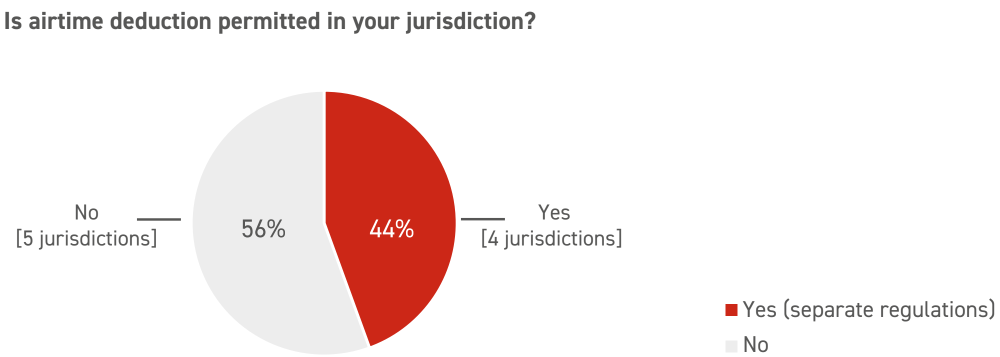
For the study, supervisors indicated various plans and approaches to regulate m-insurance. The options identified from the survey and interviews that are being adopted can be categorized into three groups:

- **Supervisors who are working on a dedicated m-insurance regulation or issuing digital insurance regulations.** If there are no suitable regulations to leverage on, creating a separate regulatory framework could be the only option. Some supervisors (CIMA and Indonesia) indicated plans to introduce such regulations (as m-insurance or mobile microinsurance). These would cover issues from licensing/regulating TSPs to supervisory reporting.
- **Those integrating m-insurance aspects in their existing or forthcoming regulations.** Integrating mobile technology and business models in existing regulations may be a simpler approach, given that such steps are possible. India plans to integrate m-insurance under e-channel regulations). Kenya has been preparing to adopt a microinsurance law (awaiting formal approval) and likewise some other supervisors, at the moment, they consider these regulations adequate for covering m-insurance aspects (Brazil, Chile, Costa Rica, and South Africa).
- **Combination of both of options 1 and 2.** Ghana, CIMA and Indonesia have developed/are developing mobile or microinsurance regulations alongside digital insurance or digital financial services regulations, into which m-insurance would be integrated.

4.4.5 Area 5: Whether airtime deduction is permitted

Airtime deduction for m-insurance cuts across multiple jurisdictions. While the insurance supervisor may permit airtime deduction, final permission concerning its use as a recognized means of payment is under the purview of the central bank. Of the jurisdictions surveyed in the telephone/in-depth interviews, in 4 of 9 jurisdictions, the payments supervisors allow airtime deductions (see Figure 6).

Figure 6: Jurisdictions permitting the use of airtime



Insurance entities engaging with the central bank or payments regulator pertaining usage of airtime. Airtime deduction as key driver of m-insurance is leaving the insurance supervisor with a dilemma. Multiple stakeholders interviewed as part of this study indicated that airtime deduction is one of the key drivers of m-insurance growth given airtime's ubiquitous nature as a payment mechanism. However, disadvantages of airtime include a lack of consumer transparency and awareness or even abuses of consumers. This leaves insurance supervisors facing a multi-jurisdictional dilemma: in cases where insurance premium cannot be deducted from airtime, should they engage with the central bank/payments supervisor pertaining the use of airtime given that the insurance supervisor considers that sufficient safeguards are in place to justify such action?

4.5 Up-coming regulatory changes in summary

Several jurisdictions are in the process of adjusting their regulatory approaches to m-insurance. Supervisors are regulating m-insurance or digitalisation of insurance business (beyond the conventional insurance regulatory framework) in the following areas (based on information in the interviews):

- Digital insurance or finance regulation: CIMA, India, Indonesia;
- Microinsurance regulation: Costa Rica, Kenya, Indonesia;
- Mass insurance regulation: Costa Rica;
- Electronic contracting or e-commerce regulation: Guatemala;
- Mobile microinsurance regulation: CIMA (under way), Ghana (adopted 2017: market conduct for m-insurance), Pakistan (adopted 2018); and
- Other regulations: South Africa, Tanzania.

Some supervisors are taking a dual approach, working on several of these areas (see details in Table 8).

Table 8. Information on up-coming regulatory changes from interviews

Country	Regulatory approach	Details
CIMA	**Mobile micro-insurance regulation** **Digital insurance regulation**	CIMA is preparing two sets of regulation dealing with m-insurance – m-insurance regulations and digital insurance regulations. • In the forthcoming mobile insurance legislation/regulations, m-insurance will be as a part of microinsurance. M-insurance will be defined as **microinsurance, which uses mobile phones** or digital technology to access customers. • The **digital insurance regulations** will cover all insurance business and will make provision for the licensing of TSPs as intermediaries.
Costa Rica	**Micro-insurance and mass insurance:** Integration of m-insurance into new micro-insurance and mass insurance regulation	**A new regulation for mass insurance and microinsurance** is under way. The general risk based supervision model and regulation consider that entities should possess an appropriate level of knowledge about their products and their distribution. The regulations have certain requirements including: • Information requirements in a clear and timely manner for cross-selling practices; • Quantitative limits or clear information regarding exclusions; • Improved and clear disclosure requirements including - duration of cover, claims process, policy cancellation and simplified product information; • Rules regarding remuneration policies of entities selling in order to avoid conflict to act in the best interest of the consumer; and • Simplified complaint system for consumers.
Ghana	**Market Conduct rules for mobile insurance** (Nov. 2017) (see also Boxes 6 and 9 and Annex 4)	The National Insurance Commission (NIC) adopted market conduct rules for **mobile insurance, which includes:** • the treatment of TSPs: While TSPs have always been regulated in principle[47] (e.g. they are licensed as general microinsurance agents, and submit reports bi-annually), TSPs are now specifically regulated; • development of mobile insurance product – what features mobile microinsurance products should have; and • disclosure e.g. the information required to be disclosed. The information required for effective onsite and offsite monitoring and supervision will also be defined.
Guatemala	**Electronic contracting:** New regulation concerning e-policies	No considerations regarding regulations about mobile phone-based insurance. However, the supervisor is assessing how to regulate the delivery of the policy by electronic devices in order to the law, which allows electronic contracting between insurers and the public. This regulatory framework will establish the **procedures that insurers must follow and others obligations** that must be accomplished regarding e-contracting in insurance, like confidentiality, consent of the acquirer, and integrity and electronic signature.
India	**E-commerce regulation**	**E-commerce regulation** were adopted by the Insurance Regulatory and Development Authority (IRDA) in March 2017.[48] The regulations focus on sales through channels defined as **e-channels** including mobile and internet as mediums. The details are as follows: • The main objective of e-commerce regulations is policyholder protection; • Definition: mobile as a channel (using the channel) or - as a device (insuring the device – but this is not part of this study), IRDA does not distinguish between mobile or e-commerce; • No separate monitoring of products distributed via mobile channel at the moment • Regulation of various activities with mobile being regulated as a channel (including client data, disclosure and sales process etc.); • E-initiative for grievances: "integrated grievance management system" for consumer complaints; is online and real time basis (insurance supervisor can check this at any moment).

47 Current Insurance Act gives NIC flexibility to issue directives allowing a principles-based approach to regulation in the absence of formal regulation (Andoh, 2017).

48 https://www.irdai.gov.in/ADMINCMS/cms/frmGuidelines_List.aspx?mid=9.9.1

Country	Regulatory approach	Details

Indonesia	**Up-coming digital finance regulations**
	
	Microinsurance regulation will also include m-insurance aspects
		The envisaged digital insurance regulatory framework intends to cover all forms of digital distribution and financial services including mobile insurance. Two sets of regulations are under ways. Digital insurance regulatory framework covers all digital distribution channels, including mobile phones.
		• **Forthcoming regulations to regulate digital financial** services overall including mobile insurance. There will be a special department within the insurance supervisory authority, Financial Services Authority (Otoritas Jasa Keuangan, OJK) to oversee regulation and supervision of digital financial services. This new regulation will stipulate disclosure requirements across all digital finance frameworks. In future, OJK may plan to issue digital finance to issue regulation for each particular sub-sector of the financial sector (including insurance). Currently, the digital finance regulation in place applies to peer-to-peer (P2P) lending.
		• **In the forthcoming microinsurance circular/regulations** there is a section stating what insurers need to do when offering digital or mobile insurance. Several regulations are being considered including circulars on microinsurance:
		  • products;
		  • distribution channels;
		  • disclosures; and
		  • claims settlements.

Kenya	**Up-coming MI regulation includes e-transactions**	Draft microinsurance policy paper and **microinsurance regulation allow for the use of ICT** to replace all transactions and paper documentation related to policy issuance. Further submission of application, documentation and premium and claim payments can be done through mobile phones. This includes paperless transactions, and mobile-phone based insurance.
Pakistan	**Product features for m-insurance**	Insurance supervisory SEPC has **formulated legislature regarding m-insurance** along the lines of levying limits on the sum insured/ premium or the product features/ exclusions of the products to be distributed through the mobile.
South Africa	**Policyholder Protection Rules** Regulatory changes that will indirectly benefit/also be valid for m-insurance	Mobile insurance is not defined as a separate category or class of business and is **viewed as a distribution channel.** As part of broader conduct of business reforms, general requirements to enhance consumer protection and the fair treatment of potential policyholders and policyholders will be imposed under the **Policyholder Protection Rules** (effective date 1 January 2018). There is also a plan to establish a dedicated conduct of business reporting requirement with a particular focus on distribution channels. This will include requesting data on distribution channels and how they function. **These reforms are not specific to mobile insurance.**
Tanzania	**Plan to integrate mobile phone-based insurance**	Microinsurance regulations have been released and in effect. Currently the Insurance Act and the necessary **regulations are being amended to include regulations for mobile phone based insurance**. At the moment, m-insurance is categorized as a microinsurance product.

NIC Ghana issued m-insurance regulations in 2017. The main features are summarized below (see Box 10):

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BOX 10 I New Mobile Insurance Regulation Ghana (1st November 2017)

New regulation issued. NIC Ghana has issued "Market conduct (Mobile Insurance) Rules" on the 1st of November, 2017 under the Powers of the Insurance Act (2006). The scope of the rules are applicable to:

- Licensed insurers, brokers or agents that rely on mobile-based distribution; and
- Licensed insurers or any other person carrying on a regulated activity distributing mobile insurance contracts thought a platform-only provider (e.g. microinsurance agents).
- When a mobile insurance contract is approved as a microinsurance contract under the respective rules (2013) those rules additionally apply.
- Generally, all arrangements related to mobile insurance contracts must be approved by the NIC.

Submissions for approval must include the description of the product (e.g. loyalty, paid or hybrid products, group and individual products, insurer's products or branded products i.e. MNO-branded, agent branded or co-branded); a model contract, Information on the partners in mobile insurance arrangement, a policy summary, a business plan including 3-year financial projection on premium income, reinsurance costs, operational costs and expected claims, the actuarial information the details ensuring the insurer has sufficient information concerning and access to technology by the MNO.

Other conditions relate to the revocation of the approval, the ultimate responsibility for mobile insurance lying with the insurer, the liability for the other parties which is lying with the other perspective authority.

Form of **mobile insurance arrangements** are a) MNO as **platform-only provider** distributes an individual contract; b) MNO as a licensed insurance agent distributes individual contract; c) MNO is the master policyholder for a group insurance contract. Participants need to be "appropriately experienced and licensed" person is party to the arrangement (**outsourcing service provider,** insurance agent or broker).

No insurance agent licenses are needed for a MNO when it participates as a platform-only provider, or it holds a master policy for its customers, nor are they required for outsourcing service providers, unless services are a regulated activity as well as for agents that assume functions that do not require insurance agents or sub-agents licenses.

Service level agreements need to include a mechanism for dispute resolution between the parties; ensure confidentiality of client information; include provision for the data handling and transmission; and enable the insurer to access all information relevant to the insurance contracts.

Contingency arrangements must be defined for cases when the arrangement is discontinued or materially changed. Clauses providing for the **mobile insurance contracts** include design criteria, records of the insurer, group mobile insurance contract, branded insurance products, premium payments (e-money, agents under Bank of Ghana, airtime balance, cash or other means) and the policy summary (plain and easy-to-understand language, summary of cover and key features, and list of minimum information) and the methods of claims settlement.

The **policy summary** of individual contracts is to be provided to the insured person in time to enter into or renew the contract, and the **policy document** on the commencement or as soon as possible thereafter.

Claims payments can be made on an e-money account, by cash or into a bank account, but not as airtime balance to the insured or beneficiary.

Parties can communicate via electronic means if the insured person has given prior consent, which can be done via SMS or another type of electronic communication.

The "interpretation of terms" is comprehensive including "branded product", "hybrid product" "e-money", and "mobile insurance" or "m-insurance" (23) which includes: MNOs acting in various functions, multi-party arrangements, not considering who pays the premium. Platform-only providers (24) are when the MNO does not assume regulated activities or act as master policyholder.

Source: NIC Ghana, Market Conduct (Mobile Insurance) Rules 2017, see also Annex 4 for the full text

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4.6 Supervisory tools and techniques, and collaboration across jurisdictions

Some supervisory tools and techniques are in place for m-insurance. Supervisors have been identifying the relevance for, and working on certain supervisory tools and techniques specific to m-insurance: data collection, a test and learn approach, and other complementary measures.

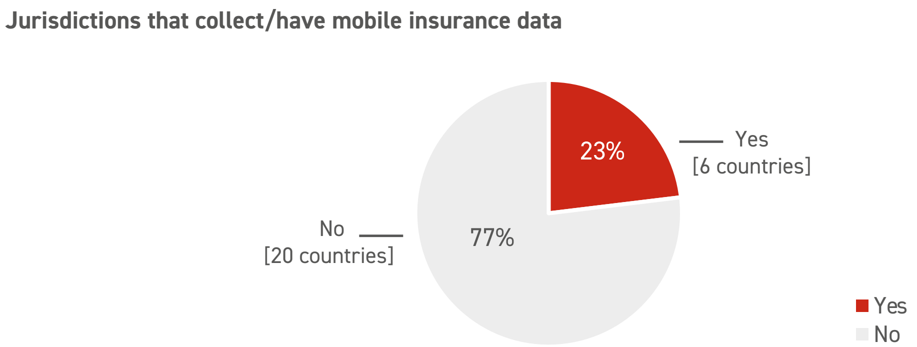
4.6.1 Data collection

A small number of jurisdictions are already collecting m-insurance data as part of the supervisory approach (see Figure 7).

Six jurisdictions (23%) collect delineated m-insurance data such as the number of:

- products registered;
- lives covered; and
- providers engaged.

Figure 7. Analysis of jurisdictions that collect or have m-insurance data



Data is collected in various ways across jurisdictions. Jurisdictions collect data and information pertaining m-insurance in various ways):

- **Ad-hoc data collection (during onsite inspections).** Some collect select m-insurance data in an ad-hoc way during onsite inspections.
- **Intentional data collection during product approval process.** Some jurisdictions collect data pertaining m-insurance during the product approval process.
- **Stipulated data collection.** One insurance supervisor already requires TSPs to submit m-insurance data on a regular basis (Ghana), in line with the reporting requirements of microinsurance (twice a year).

Challenges arise due to weak data collection. Due to limited m-insurance performance data, insurance supervisors are often only aware of issues after they have occurred (ex-post) and when problems arise e.g. partnership failures, sudden product cessations, mis-selling, complaints and/or market backlash. Most jurisdictions require reporting by channel or complaints received but this allows them very little observance of the m-insurance portfolio. In most cases, insurance supervisors are reliant on insights from on-site inspections, which are conducted infrequently (e.g. every 2-3 years, or when problems arise).

4.6.2 Adopting a test and learn approach

Adopting regulatory flexibility while testing and learning. Some supervisors have been adopting a test and learn approach to facilitate innovation. In these cases, insurance supervisors have engaged with TSPs, insurers and MNOs and MMPs, despite not having a fully suitable regulatory approach in place. They have been striving to find regulatory and supervisory solutions that encourage such innovation while ensuring consumer protection. Such solutions include:

- Active engagement with providers (TSPs, MNOs and insurers) during the partnership setup and the product approval process.
- Active engagement with other supervisory authorities overseeing innovators who fall outside of the insurance supervisor's purview (in the case of m-insurance, mainly the telecommunications supervisor and the central bank/payments supervisor).
- Flexibility to issue directives allowing for a principle-based approach to regulation in the absence of formal regulation addressing a particular innovation (Guidance note and Explanatory Note related to the Microinsurance Market Conduct rule, as in Ghana, board notices as in South Africa).
- Allowing for exemptions.
- Examples of a **test and learn approach** identified in the study include:
  - Ghana – applying a flexible approach, and utilising microinsurance regulation to regulate and supervise m-insurance initiatives and specifically, the TSPs as MI agents.
  - Tanzania – engaging with product providers (TSPs and MNOs) during the product approval process. Also engaging with the telecommunication regulator during the product approval process, when approving the serve level agreement.

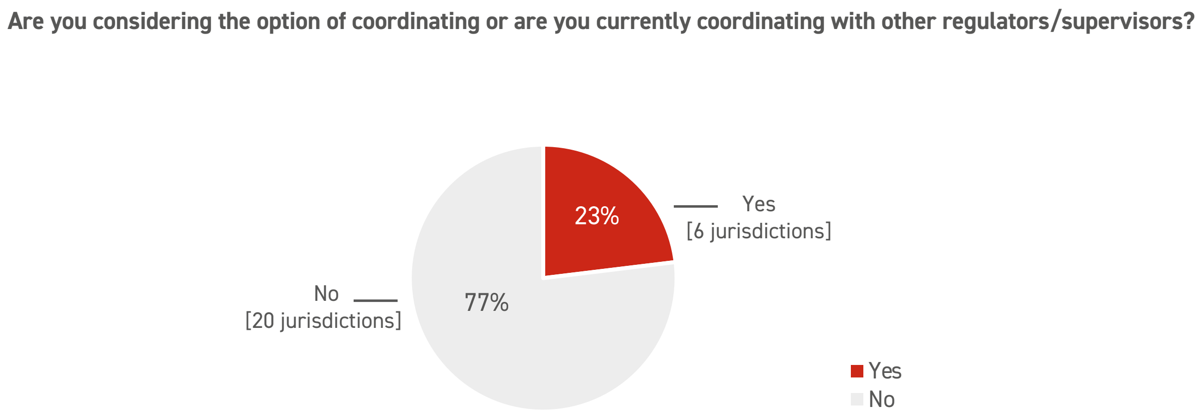
4.6.3 Complementary measures of supervisors

Some supervisors are building capacity of supervisory staff and systems. Supervisory staff often lack the technical understanding of mobile technology and the nature of non-insurance players in the value chain. The core skill set of supervisory staff pertains to insurance and often does not include technology, e-transactions and entities outside the realm of insurance. Financial Services Authority (OJK) Indonesia has indicated a plan to introduce a dedicated digital financial services department responsible for all digitally supported financial services (payments, remittances, loans, and savings), as part of an overall restructuring of the supervisor.

Some supervisors reported they are coordinating or even collaborating with the other authorities involved. Supervisory collaboration across jurisdictions is happening. As shown in Figure 8 below, 6 of 20 (23%) supervisors are already cooperating with other regulators, mainly the telecommunications authority and/or the central bank, or considering or already having a Memorandum of Understanding with the telco regulator (MOU). These are:

- CIMA;
- Ghana (has an MOU);
- Kenya;
- Pakistan;
- Uganda (working on an MOU with telecommunications regulator); and
- Tanzania.

Figure 8. Insurance supervisors that are coordinating or relying on MOUs with other regulators



However, many supervisors interviewed were only considering or not yet implementing such practices. This is a challenge as some crucial business risks need to be addressed but are under the purview of other supervisory authorities. Furthermore, in designing a future regulatory approach to m-insurance, insurance supervisors will have to inevitably assess or even support changes to laws and regulations beyond insurance that impact m-insurance business, or vice versa.

5. Conclusions and proposals

Growing markets require informed and proactive supervisors. As m-insurance markets continue to grow, so should insurance supervisors' awareness and information regarding market developments, and the associated risks. Insurance supervisors find themselves confronted with the challenge of balancing the need to provide an enabling environment for market growth and innovation, while ensuring markets are stable and consumers protected. Each jurisdiction will require a customized regulatory approach to m-insurance. Hence, supervisors will need to understand the risks facing their particular market and adopt the necessary measures best suited to their capacity, market requirements and legal framework. Even supervisors who do not presently observe significant m-insurance activity could benefit from adopting a proactive approach in order to pre-empt future issues.

The study concludes with a summary of **key risks and challenges** pertaining to m-insurance, and the **practical measures** that supervisors can adopt. Finally, it sets out **proposals for further research and discussion.**

5.1 Key challenges for supervisors

Understanding technology, stakeholders and business models. Supervisors need to invest in gaining a better understanding of the key features of m-insurance i.e. the value chain structure, business models, partnership arrangements and stakeholders involved, particularly the roles of the non-insurance players in the value chain, and how these impact prudential and conduct of business risks. This will allow supervisors to effectively supervise m-insurance and manage the risks therein.

Conduct of business risk is at the heart of supervisory concerns. While risks in both the areas of prudential and conduct of business were identified, conduct of business risk has been cited as the most pressing risk by insurance supervisors. These risks largely arise from the structure and composition of the m-insurance value chain with new non-insurance that hold great market power, and the technology-based features of the business. M-insurance products have the chance to become "real sprinters" - or to dismally fail. The failure of an m-insurance product (especially after achieving significant scale) could pose a significant risk to the market and potentially impact the growth of the insurance sector overall.

The lack of m-insurance data poses serious consumer protection and supervisory threats. Lack of m-insurance data pertaining business models deployed - such as products on the market, and claims and renewal ratios or complaints - poses serious consumer protection threats. This is because supervisors are unable to effectively supervise and also regulate in a pre-emptive manner. Generally, the only source of m-insurance data available to insurance supervisory authorities is via on-site inspections, which are often not conducted on a regular enough basis to effectively monitor developments, especially as m-insurance can rapidly generate huge business volumes. Performance data is especially critical in markets where m-insurance has achieved significant scale and thus poses significant risk in proportion to the current existing insurance market. In jurisdictions where m-insurance operates at significant scale, separate reporting should be required from the onset, e.g. as a condition to product approval.

Supervisors should understand the dimensions of client value of m-insurance products. The rapid growth, scale and high profitability ratios (often tied with very low claims ratios) of simple m-insurance products observed in various markets raises the question of the value to the client, especially with airtime deductions that may not be transparent, and short-term policies with very low coverage. Insights from interviews indicate there are m-insurance products on the market that have high profitability ratios and low claims ratios. This means such business models are potentially taking advantage of clients. It also reinforces concerns around disclosure through digital devices and interfaces.

The situation of the insurer being the weakest party in the value chain raises serious concerns. The adaptation of product approval and supervisory processes may be required by insurers. When insurers are the weakest party in the value chain, coupled with the insurance supervisor's limited regulatory oversight of other players, significant supervisory risks emerge.

Capacity and financial constraints may hinder supervisory action. Supervisors should be forward-looking and be able to adapt related to new technologies generally. Staff capacity, IT systems and financial resources often don't allow supervisors to develop immediate and effective responses. Informing the ministry in charge about these developments and sensitizing them to the potential threats and opportunities is key.

5.2 What supervisors can do

Apply a proportionate regulatory approach to m-insurance. The nature and scale of the risks pertaining m-insurance differ depending on the magnitude of the m-insurance business relative to: the insurer's other business; the partnership model; the kind of products sold; the marketing strategy; the market segment accessing these products; and the level of oversight the insurance supervisor has over non-insurance business and distribution partners.

Supervisory and regulatory frameworks may need to accommodate m-insurance in a number of key areas. In the absence of a dedicated m-insurance regulatory framework, insurance supervisors may want to consider a number of key areas or topics in order to ensure regulatory frameworks adequately accommodate m-insurance:

- → **Area 1:** Definition of m-insurance needs to allow for the regulatory delineation of this business.
- → **Area 2:** Oversight of non-insurance entities (TSPs, MNOs and other parties).
- → **Area 3:** Consumer understanding and disclosure (addressing disclosure via digital platforms).
- → **Area 4:** In what form to effect adequate regulatory changes.
- → **Area 5:** Whether airtime deduction is permitted.

Regulatory flexibility and openness. In order to foster innovations in the insurance market, regulation and supervisory processes, such as product approval, needs to be agile. Regulation needs to be flexible as innovation around business models and products is occurring at a rapid pace and market actor's roles are changing. Ensuring appropriate oversight of pilots requires engagement with both the insurer and non-insurance parties during product approval. Test and learn approaches or regulatory sandboxes are a means to addressing this.[49]

> "In the long run we will have to think of digital insurance and all forms of insurance in the digital space. In the years to come, there may be other digital platforms distributing insurance and not just mobile phones."
>
> *(Financial Services Authority - Indonesia)*

Deepen understanding of associated risks with a focus on key risks. Under COB risks, policyholder awareness is by far the most striking issue. This risk warrants focus on supervisory efforts in order to understand the issue in depth, and work on adequate solutions. One possible solution is to introduce financial education tailored to digitally-supported insurance. How to ensure effective disclosure in the digital age is a challenge for all stakeholders.

Improving supervisory oversight of key activities in the value chain. Insurance supervisors will need to have a complete 360 degree view of the m-insurance value chain to ensure this business is fully understood, and all potential supervisory gaps are captured, regulatory arbitrage is avoided and all parties can be held accountable.

Holding all parties in the value chain accountable either through direct or indirect supervision. Indirectly through holding insurers accountable for all activities across the value chain or directly through licensing MNOs and TSPs as intermediaries. Direct supervision of non-insurance players in the value chain would also empower the insurer to collect additional and more granular data e.g. through conducting on-site inspections.

Client value as a key concern. Supervisors should establish or adjust systems to monitor and assess this feature. Measures could include separate reporting requirements and adaptations to systems, staff training, regular significant and well documented mystery shopping exercises; and client surveys, among others. Specific supervisory measures can help provide tangible information concerning client value and consumer behaviour and preferences, and abuses.

Data collection. Supervisors should have an evidence-base of how m-insurance is developing, and therefore improve data collection on this particular product type (see Box 11).

49 Regulating for innovation, Cenfri, 2017 http://www.cenfri.org/documents/Kigali%20learning%20session/Regulating%20for%20innovation%20Kigali%20learning%20session_FSDA%20Cenfri_August%202017.pdf

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BOX 11 | Examples of Data Collection

- Number and types of coverage: In order to understand risk and its magnitude to the general market (i.e. understand number of lives covered, or assets, that fall under m-insurance) data on number and type of coverages (asset, life, etc.).
- Number of products on the market: To understand the prominence of m-insurance products, understand what portion of the insurance book is dedicated towards m-insurance.
- Claims and renewal ratios: Supervisors will need to define which ratios help to and understand the client value side of m-insurance. Performance data based on key indicators, among those claims and renewal rates, are important to define and fill with regular data. Notably, it is equally important that this data is analysed and respective action taken.
- Details of the partnership: Understand the respective roles and functions of players in the value chain, especially concerning core and critical insurance functions that require greater supervision.

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Supervisory capacity building. As m-insurance and the application of digital technology in insurance business models are growing, insurance supervisors should prioritize digital capacity building. This technical know-how should not be limited to particular departments (e.g. IT department) within the supervisory authority but teams that are knowledgeable about digital technologies should also be built in other departments (actuarial, research, supervision, customer services, among others).

Engaging with other authorities. Collaboration is required with authorities with oversight over non-insurance parties (MNO regulator, Central Bank, etc.). Effective approaches can be exchanging information with and cooperating with the other authorities involved in this business during pilots, joint drafting of regulation or a permanent interinstitutional committee.

Knowledge sharing with peers. Supervisors should engage in peer-exchanges with insurance supervisors in other countries early on to ensure the dissemination of good practice and lessons learnt. Such knowledge transfer mechanisms could prove beneficial especially related to issues where no or limited regulatory precedent is available such as:

- Effective control measures of non-insurance parties in the value chain;
- Effective treatment of peculiarities of TSPs and MNOs;
- Cost effective monitoring of client value issues;
- Supervisory tools at the intersection of various regulators;
- Product approval processes in m-insurance;
- Approval of service level or commercialisation agreements; and
- Allowing airtime as payment mechanisms or not.

Consumer education on m-insurance is a priority. In a number of countries, insurance supervisors are engaged in the design and implementation of national financial inclusion and insurance education strategies. Insurance supervisors should reflect on integrating the usage of and risks associated with digitally supported financial services and insurance provision (among those m-insurance) into such national consumer education strategies and approaches.

5.3 Proposals for further research and discussion

A range of issues has emerged that fall out of scope of this study yet deserve acknowledging for future exploration and action. These issues emerged from the Mobile Insurance Conference 2017 (see Box 12) and from interviews and the literature review conducted for this study.

BOX 12 | Additional issues from IAIS-A2ii-CIMA Mobile Insurance Conference
https://a2ii.org/sites/default/files/events/mic_report_engl_web.pdf

During the Mobile Insurance Conference in Cameroon in February 2017, insurance supervisors raised various issues, which require further exploration. These issues are beyond the scope of this preliminary study and require further research:

- **Separate provision:** Is a dedicated m-insurance supervisory framework necessary or can m-insurance be accommodated in a broader framework?
- **Remuneration:** How to consider remuneration of players and in a scenario with an imbalance of power? The TSPs remuneration structure is different to that of traditional brokers and agents due to the additional functions they provide.
- **Achieving sustained growth in a market where there is low exposure to insurance:** One TSP indicated that 80-90% of their clients have not had any engagement with insurance prior to purchasing m-insurance products (BIMA, 2016). How do you achieve sustained growth in a market, which has had little-to-no experience and previous engagement with insurance?
- **Data protection:** How do you ensure client data protection over digital platforms?
- **Ascertaining the role of MNOs:** Are MNOs agents or policyholders? This question is especially relevant given the fact that MNOs wield the greatest power in the value chain (Andoh, 2017).
- **What is the best mode of disclosure?** What is the best mode of disclosure via digital platforms? (Andoh, 2017)

Key issues for further work identified during the course of the study include:

- **Defining m-insurance.** The IAIS (forth-coming Draft Application Paper on the Use of Digital Technology in Inclusive Insurance 2018) and two jurisdictions have defined m-insurance, while some other jurisdictions have made plans and preparations to do so. Some jurisdictions are defining m-insurance as digital insurance, or under e-commerce, while some also consider it as part of microinsurance. Further work is needed to carve out the features, and distinguish the different definitions and regulatory frameworks from each other, or cross-reference them.
- **Understanding the role, function, and supervision of TSPs:** The type and role of TSPs differs depending on the jurisdiction and the particular function the TSP assumes in the partnership. Clarification is needed concerning the various types of TSPs and their roles and requirements. It is key to identify, which type of TSP is required to obtain an insurance licence (as broker or agent etc.) and which TSPs – if they don't perform insurance functions – are under the purview of another authority.

- **Establish the role of airtime deduction as an important premium collection model, while preventing consumer abuse.** Airtime deduction is considered the low-hanging fruit of premium collection within the m-insurance business model. While generating profitable business, there is potential for abuse of clients if they are unaware they are insured, or should there be challenges related to the IT platform. For example, if clients de-register and the IT system fails to accommodate this, clients can still have premiums deducted from their airtime balance even when they are no longer enrolled.
- **Enhance client identification in an m-insurance scheme.** With conventional insurance products, a policy number is provided to clients as a primary form of client identification. All data pertaining to the client is linked to this number. Furthermore, mobile numbers used by women are often registered on their husband's name. A key question is what are the primary identifiers when engaging with m-insurance clients – their mobile number or policy number? What happens to client information and data when a client changes their number? When the mobile is used by the wife? Can client data be transferred between mobile numbers should clients change their mobile numbers or SIM cards? This is especially pertinent in some emerging markets, where clients change their mobile numbers regularly or have multiple SIM cards.
- **Understanding m-insurance partnerships, profitability as well as the power dynamics.** Transparency concerning the details pertaining to the costs and profits (including profit sharing) of m-insurance business models could improve the supervision of these models. Such information could assist the insurance supervisor to foresee potential consumer abuse, poor client value resulting (e.g. from very low claims ratios), and also help identify prudential risks. Supervisors should collect and share claims ratios and at least, internally share this information with their peers even if not publicly. The power dynamics within the m-insurance partnership (who is leading, who has the greatest resources and who is driving the partnership) is another important consideration for further study.
- **The scope of limitations pertaining to the purview of the insurance supervisor.** The questions arising from this particular consideration are: What are the prescribed limits of the insurance supervisor's purview and authority over non-insurance parties (like MNOs and TSPs)?; At what point do insurance supervisors engage with other supervisory authorities in ensuring effective oversight of the m-insurance value chain?; and, What challenges and concerns can be best addressed by other supervisory and regulatory authorities?
- **How to establish effective modes of disclosure.** Digital disclosure has its limitations (e.g. SMS space limit, references to websites) and effective approaches needs to be established.

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Annex 1 | Issues and approaches along the inclusive insurance product life cycle

The IAIS inclusive insurance product life cycle[50] provides a valuable assessment framework for categorizing m-insurance challenges. The following table is an attempt to cluster issues and regulatory approaches around the six aspects of the product life cycle.

Aspect	Issues encountered	Regulatory approach
1 **Product develop-ment**	• TSPs driving product development; some even including actuarial analysis; however, it's the insurer who submits the product for approval and holds liability. • Lack of product standards to assure product quality in terms of simplicity, affordability, transparency. • Product sustainability due to weak pricing, lack of actuarial data. • Weak client value in short-term and low-value coverages (e.g. for hospitalisation).	• Product approval includes checking whether mobile phones are used. • Product standards for microinsurance insurance are valid for mobile (micro) insurance.
2 **Distribu-tion**	• Sales agents or staff of non-financial distributers insufficiently trained. • Lack of knowledge among client facing MNO agents or sales staff. • High agent turn-over makes training expensive/difficult • Call centre does not provide sufficient quality information on the policy to the insured.	• Only very simple products can be sold via these channels and their salesforce. • Supervisor approves commercialization or service level agreement. • Minimum requirements for training sales-force. • Require certificate for group policies. • Checks and controls related to call centres. • Insurers are required to submit call centre scripts, checked on a random basis. • The right to check on call centre that are broker-managed is invoked.
3 **Disclosure of informa-tion**	• Customer unaware of coverage. • Customer lacks knowledge of product use • Weak accessibility of internet-based or smart-phone-based disclosure. • Client does not know who the insurer is. • Group policyholders may not issue a membership certificate.	• Require product simplicity • Microinsurance regulation requires simple products and provides for simplified product parameters • Clients must be notified 6 months in advance if the insurer changes

50 IAIS Issues Paper on Conduct of Business in Inclusive Insurance, November 2015 (IAIS, 2015a).

Aspect	Issues encountered	Regulatory approach
4 **Customer acceptance**	• Automatic enrolment of client base but activation of policy is required in the case of loyalty insurance. • Client may not remember they have signed up if they used an electronic signature. • Client can in principle receive policy documentation via their mobile and internet, but face connectivity problems.	• Cooling off-periods • Customer are allowed to receive policy documentation via mobile and internet • Customer can receive certificate under a group policy as a PDF.
5 **Premium collection**	• Airtime deduction may not be allowed._ • Where airtime charges are allowed, VAT may be charged. • Mobile wallet charges are not broadly used, many registered users have dormant wallets.	• Airtime is an acceptable form of payment in certain jurisdictions. • Airtime is not accepted as a form of payment in certain jurisdictions.
6 **Complaints handling**	• Contact information for complaints may be inaccessible via electronic policies (SMS-based in the case of loyalty products). • The electronic policy may be in PDF format but customer cannot download the policy or has no access to a computer or a printer. • Servicing is ineffective due to the lack of knowledge, time and incentives of the MNO agents. • Long queues at the MNO offices. • Customer is sent from MNO to insurer and vice versa.	

Annex 2 | Consultations

Insurance supervisors and regulators

Country	Name	Designation	Organisation
Armenia	Ashot Simonyan	Regulator	Central Bank of Armenia
Australia	Keith Chapman	Executive General Manager	Australian Prudential Regulation Authority (APRA)
Brazil	Maria Augusta de Queiroz Alves	Technical analyst	Superintendencia de Seguros Privados (SUSEP)
Chile	Olga Salashina	Analyst, International Affairs Area	Superintendencia de Valores y Seguros
Costa Rica	Celia González Haug	Director Normative and Authorizations	Superintendencia General de Seguros de Costa Rica (SUGESE)
Curaçao and Sint Maarten	J. Candelaria	Department head Insurance Supervision - offsite	Centrale Bank van Curaçao en Sint Maarten
Georgia	Natia Kvachakhia	Senior Specialist	LEPL Insurance State Supervision Service of Georgia
Ghana	Michael Kofi Andoh	Head of Supervision	National Insurance Commission
Guatemala	Jennifer Perez	Profesional II	Superintendencia de Bancos de Gutemala
Guyana	Louise Nero	Insurance Supervisor	Bank of Guyana
India	Yegnapriya Bharath	Chief General Manager, Non-Life Department	Insurance Regulatory and Development Authority (IRDA9
Indonesia	Moch Muchlasin	Director: Non-Bank Sharia Financial Institutions	Indonesia Financial Services Authority (Otoritas Jasa Keuangan, OJK)
Jamaica	Sekayi Campbell	Chief Actuary	Financial Services Commission
Kenya	Joseph Owuor James Ndwiga	Senior Supervision Officer Senior Supervision Officer	Insurance Regulatory Authority of Kenya
Macao	Byron Wong	Senior Insurance Examiner	Monetary Authority of Macao
Mauritius	P. K. Kuriachen	Acting Chief Executive	Financial Services Commission (FSC)
Mozambique	Anonymous		Instituto de Supervisão de Seguros de Moçambique (ISSM)
Namibia	Irene Shebo	Policy Advisor	Namibia Financial Institutions Supervisory Authority (NAMFISA)

Country	Name	Designation	Organisation
Nepal	Shreeman Karki	Director	Insurance Regulatory Authority of Nepal
Pakistan	Syed Nayyar Hussain	Director	Securities and Exchange Commission of Pakistan
Philippines	Denis C. Cabucos	Division Manager, Regulation, Enforcement & Prosecution Division	Insurance Commission
South Africa	Jo-Ann Ferreira	Head: Insurance Regulatory Framework	Financial Services Board (FSB)
Tanzania	Anna Abdiel Abayo Neema Lutula	Senior Insurance Officer Manager Actuarial Services	Tanzania Insurance Regulatory Authority (TIRA)
Uganda	Alhaj Kaddunabbi Ibrahim Lubega	Chief Executive Officer	Insurance Regulatory Authority of Uganda (IRA)
Vanuatu	Marinette Abbil	Manager, Insurance Supervision	Reserve Bank of Vanuatu
West and Central Africa	Cedric Miakwang	Commissioner Controller	CIMA
West and Central Africa	Luc Noubissi	Senior Insurance Specialist	CIMA

Key resource persons

Name	Designation	Organisation
Toby Behrmann	Product and marketing	Stone Step
Yiling Cheah	Business Development Manager, Asia	BIMA
Jeremy Leach	CEO	Inclusivity Solutions
Richard Leftley	CEO	MicroEnsure
Michael J. McCord	President	The Microinsurance Centre at Milliman

Annex 3 | M-insurance Regulation Ghana (Nov. 2017)

MARKET CONDUCT (MOBILE INSURANCE) RULES, 2017

The National Insurance Commission issues these Market Conduct Rules under the powers granted to it by section 204 of the Insurance Act, 2006 (Act 724).

Scope of Rules and Prohibitions

Scope of Rules

1. (1) These Rules apply to—

(a) a licensed insurer that distributes an insurance contract, or permits an insurance contract to be distributed, through an arrangement that constitutes mobile insurance;

(b) a licensed insurance broker who acts as insurance broker in relation to any insurance contract that is distributed through an arrangement that constitutes mobile insurance; and

(c) a licensed insurance agent who distributes an insurance contract, as intermediary, through an arrangement that constitutes mobile insurance.

(2) These Rules do not apply to a platform-only provider, but they do apply to—

(a) a licensed insurer that distributes a mobile insurance contract through a platform-only provider; and

(b) any other person carrying on a regulated activity in relation to the distribution of a mobile insurance contract through a platform-only provider.

(3) If a mobile insurance contract is approved as a microinsurance contract under the Market Conduct (Microinsurance) Rules, 2013, those Rules apply to the contract and the marketing and sale of the contract in addition to these Rules.

Prohibitions in relation to mobile insurance

2. Subject to the Schedule, on or after the commencement date—

(a) a licensed insurer, a licensed insurance broker and a licensed insurance agent shall not participate in any arrangement that constitutes mobile insurance, except in accordance with these Rules;

(b) a licensed insurer shall not distribute an insurance contract, or permit an insurance contract to be distributed, through an arrangement that constitutes mobile insurance without the prior written approval of the Commission; and

(c) a licensed insurance broker and a licensed insurance agent shall not participate in, or act in relation to, an arrangement that constitutes mobile insurance unless satisfied that the licensed insurer has obtained the approval of the Commission under these Rules.

Approval of the Commission

Application for approval

3. (1) An insurer may apply to the Commission for approval to distribute an insurance contract through an arrangement that constitutes mobile insurance.

(2) An application under subparagraph (1) shall be in the form approved by the Commission and shall be accompanied by—

(a) a statement describing each mobile insurance contract to be distributed through the mobile insurance arrangement including, in respect of each contract—

(i) the class and sub-class of insurance business;

(ii) whether the contract is a loyalty product, a paid product or a hybrid product;

(iii) if the contract is a paid product or a hybrid product, how the premium due is to be paid to the insurer, and by whom;

(iv) whether the contract is a group insurance contract or an individual insurance contract;

(v) whether the insurance contract will be offered and sold as a product of the insurer or as a branded product;

(vi) if the insurance contract will be offered and sold as a branded product, whether it will be an MNO-branded product, an agent-branded product or a co-branded product; and

(vii) the premium rates;

(b) a copy of the proposed mobile insurance contract or contracts to be distributed;

(c) a statement setting out the nature of, and describing, the mobile insurance arrangement and specifying in relation to the arrangement—

(i) the MNO and any other persons that will be a party to the mobile insurance arrangement;

(ii) details of the licence issued by the National Communications Authority held by the MNO;

(iii) whether the MNO will be a platform-only provider;

(iv) the roles of the various parties to the arrangement, specifying which, if any, will be participating under outsourcing arrangements with the insurer;

(v) the specific contract or contracts that will be entered into between the parties to the arrangement, including service level agreements, indicating who will be a party to each contract;

(vi) which of the parties will, by participating in the arrangement, be undertaking a regulated activity;

(vii) if any party to the arrangement will be undertaking a regulated activity, the type of licence required by the party concerned and whether the party holds the licence or has applied, or intends to apply, for the licence;

(viii) the payments to be made to the various parties to the arrangement on the onset of the arrangements and during the first year of its operation, including any outsourcing service provider, and the proportion of the expected premium income that those payments represent;

(d) a copy of each contract referred to in subparagraph (2)(d)(v);

(e) a copy of the MNO’s licence issued by the National Communications Authority;

(f) the Policy Summary

(g) a written record of how the mobile insurance contract, and the arrangement, complies with these Rules;

(h) a copy of the market and operational contingency plans required to be maintained under paragraph 12;

(i) details of the proposed reinsurance arrangements, if any;

(j) a business plan with respect to the proposed arrangement with financial projections for the first three years of the arrangement, including for each year and for each insurance contract to be distributed, and cumulatively—

(i) the expected premium income;

(ii) the expected reinsurance costs;

(iii) the expected operational costs;

(iv) the expected claims;

(k) an actuarial memorandum specifying the actuarial basis for the determination of the premium rates and demonstrating that the actuarial basis used is appropriate for the type of contract concerned; and

(l) details of the arrangements in place to ensure that the insurer has sufficient information concerning, understanding of and access to the information technology systems that have been or will be put in place by the MNO and any other party to the mobile insurance arrangement to—

(i) satisfy itself as to the effectiveness, resilience and security of the information technology systems;

(ii) to assess and manage its operational risk in relation to the information technology systems; and

(ii) to develop appropriate contingency plans and arrangements.

Approval of mobile insurance contract

4. (1) In deciding whether to approve a mobile insurance contract, the Commission will take into account—

(a) whether the insurance contract and the arrangement that constitutes mobile insurance comply with these Rules and the M-insurance Guidance;

(b) such other matters that it considers appropriate.

(2) The Commission may approve a mobile insurance contract subject to such conditions as it considers appropriate and, where it approves a mobile insurance contract subject to conditions, the conditions shall be specified in the decision notice.

(3) If the Commission refuses an application, the decision notice shall contain, or be accompanied by, a statement of the Commission's reasons for the refusal.

Revocation of approval

5. (1) The Commission may, by written notice, revoke an approval granted under paragraph 4—

(a) on the application of the licensed insurer; or

(b) if the Commission is of the opinion that—

(i) the approved mobile insurance contract does not comply with these Rules;

(ii) the arrangement that constitutes mobile insurance does not comply with these Rules; or

(iii) the continued distribution of the insurance contract through the mobile insurance arrangement is not in the best interests of insured persons or beneficiaries, or potential insured persons or beneficiaries.

(2) If the Commission issues a written notice of revocation under subparagraph (1), the licensed insurer concerned shall cease distributing the insurance contract through the mobile insurance arrangement with effect from the date of the notice or such later date as the Commission may specify in the notice.

Ultimate responsibility vests with licensed insurer

6. (1) Whether or not other parties to the arrangement that constitutes mobile insurance hold a licence under the Insurance Act or are regulated and supervised under any other legislation, the licensed insurer concerned has ultimate responsibility for ensuring that a mobile insurance contract is distributed in compliance with the Insurance Act and these Rules.

(2) Despite subparagraph (1), if a party to the arrangement is regulated or supervised by another regulatory or supervisory authority in Ghana, including the Bank of Ghana and the National Communications Authority, the licensed insurer concerned is not responsible for the compliance of that other party with the obligations and requirements to which it is subject under the other regulatory and supervisory regime.

Mobile Insurance Arrangements

Permitted types of mobile insurance arrangements

7. (1) A licensed insurer shall not distribute mobile insurance unless—

(a) the mobile insurance contract is an individual contract distributed through the mobile network of a participating MNO which acts as a platform-only provider;

(b) the mobile insurance contract is an individual contract and the participating MNO is a licensed insurance agent;

(c) the mobile insurance contract is a group insurance contract and the participating MNO is the master policyholder.

(2) Subject to these Rules, a mobile insurance contract may be marketed as—

(a) a product of the insurer;

(b) a MNO-branded product;

(c) an agent branded product; or

(d) a co-branded product.

Participants

8. (1) Subject to subparagraphs (2) and (3), a licensed insurer shall not distribute a mobile insurance contract unless an appropriately experienced and, if appropriate licensed, person is a party to the arrangement, whether as an outsourcing service provider or as an insurance agent or broker, and that person has responsibility for—

(a) administering the insurance contract and the mobile insurance arrangement, including administering claims; and

(b) providing all necessary marketing, administrative and technical support to the MNO.

(2) Subparagraph (1) does not apply to the extent that the insurer is responsible for the functions referred to in subparagraph (1).

(3) Subparagraph (1)(b) does not apply if the MNO is participating in the arrangement as a platform-only provider.

Circumstances in which participating MNO not required to be licensed as an insurance agent

9. (1) For the purposes of these Rules, a MNO that participates in a mobile insurance arrangement is not required to be licensed under the Insurance Act as an insurance agent by reason only that—

(a) it participates in the arrangement as a platform-only provider; or

(b) it enters into a group insurance contract, as master policyholder, for the benefit of its customers.

(2) Subparagraph (1) does not limit the requirement for a MNO to be licensed as an insurance agent where it carries on a regulated activity in any other capacity, as an insurance agent.

(3) Without limiting subparagraph (2), a licensed insurer shall not distribute an individual mobile insurance contract unless the participating MNO is a licensed insurance agent.

Outsourcing service providers not required to be licensed

10. (1) A party that participates in an arrangement as a service provider to the insurer under an outsourcing agreement is not required to be licensed as an insurance broker or an insurance agent, in respect of the services provided under the outsourcing agreement, unless any part of the services provided constitute a regulated activity.

(2) An agent of a party referred to in subparagraph (1) is not required to be licensed as an insurance agent or sub-agent in respect of the agency services provided, unless any part of the services provided constitute an activity that requires an insurance agents or sub-agents licence.

(3) A licensed insurer shall not, without the prior written approval of the Commission—

(a) agree to a material change in the services provided by an outsourcing service provider that participates in the mobile insurance arrangement; or

(b) enter into an outsourcing arrangement with a different service provider.

Service level agreements

11. (1) A licensed insurer shall not enter into an agreement with a party to a mobile insurance arrangement unless the agreement includes, or is accompanied by, a comprehensive service level agreement that includes a mechanism for resolving disputes between the parties; and

(2) Without limiting subparagraph (1), a service level agreement shall—

(a) provide for the appropriate confidentiality of client information;

(b) include provisions concerning the handling and transmission of data;

(c) enable the insurer to access and receive all information collected or held by the outsourcing service provider that is relevant to the design, development, pricing and sale of the insurance contract concerned.

Contingency arrangements

12. (1) A licensed insurer that distributes mobile insurance shall establish and maintain—

(a) a market contingency plan, aimed at ensuring that the interests of insured persons and beneficiaries are adequately protected in the event of the mobile insurance arrangement being discontinued, interrupted or subject to significant change; and

(b) an operational contingency plan covering operational risks, including in relation to the technology used.

(2) Without limiting subparagraph (1)(a), the market contingency plan shall provide for—

(a) the discontinuance of the arrangement;

(b) the withdrawal or exit of a party from the arrangement;

(c) the withdrawal from the market of a mobile insurance contract distributed through the arrangement;

(d) a significant change in any mobile insurance contract distributed through the arrangement.

(3) The contract or contracts entered into between the parties to the arrangement shall specify the roles and responsibilities of each party in relation to the implementation of the market and operational contingency plans.

Mobile insurance contracts

Design criteria for mobile insurance contract

13. A licensed insurer shall, when designing and developing a mobile insurance contract, whether an individual contract or a group contract, have particular regard to—

(a) whether the contract is likely to provide value to the insured persons for whom it is designed;

(b) whether the product is sustainable, particularly if the product is a loyalty product; and

(c) whether the terms of the contract are fair to insured persons.

Insurer to make and retain written record

14. (1) If a licensed insurer intends to apply for the approval of an insurance contract as a mobile insurance contract, it shall, before making application to the Commission—

(a) undertake an assessment of the contract—

(i) against the criteria specified in paragraph 13; and

(ii) in respect of its compliance with these Rules; and

(b) make a written record of the assessment made, detailing the basis on which it has assessed the insurance contract as meeting the criteria and complying with these Rules

(2) If the Commission approves the insurance contract as a mobile insurance contract, the insurer shall retain the written record of assessment until at least 3 years after the insurer ceases to distribute the contract as a mobile insurance contract.

Group mobile insurance contracts

15. (1) The master policyholder shall—

(a) maintain a written record of members and beneficiaries under the contract which shall—

(i) adequately identify each member of the group insurance contract;

(ii) in the case of a member, record the date upon which the person became a member;

(iii) provide details of any other persons who are beneficiaries under the group insurance contract;

(iv) if members are able to exercise options to take different levels of cover, summarise the cover provided by the contract to the member; and

(v) subject to subparagraph (3), the next of kin of each member; and

(b) make available to each person who becomes a member under a group mobile insurance contract—

(i) a copy of the Policy Summary;

(ii) if not specified on the Policy Summary, a Schedule setting out the details of the cover provided to the member;

(iii) the name and contact details of an employee or representative of the master policyholder whom the member may contact for further information in relation to the contract;

(iv) details as to how the member may obtain a copy of the policy document.

(2) A master policyholder complies with subsection (1) if the activities are undertaken by another party to the mobile insurance arrangement on its behalf.

(3) A member of a group mobile insurance contract may, by notice to the master policyholder request that the master policyholder—

(a) does not record details of the members' next of kin in accordance with subparagraph (1)(a)(v) or, where the details of the member's next of kin are already recorded, delete them from the master policyholders' records; or

(b) not inform the member's next of kin of any claim payable under a group mobile insurance contract.

(4) A master policyholder that receives a request under subparagraph (3) shall—

(a) advise the member that, if the request is made, there is a risk that benefits payable under the mobile insurance contract may not be paid; and

(b) take all reasonable steps to comply with the request.

Branded insurance products

16. (1) If a mobile insurance contract is distributed as a branded product, the Policy Summary and all written documentation provided to the insured person shall—

(a) state that the contract is underwritten by a licensed insurer; and

(b) specify the licensed insurer concerned.

(2) A licensed insurer shall not underwrite a MNO-branded product unless the MNO under whose branding the insurance contract is marketed and sold participates in the mobile insurance

agent as a licensed insurance agent or as the master policy holder under a group mobile insurance contract.

Payment of premiums

17. (1) In the case of a paid product or a hybrid product, the premium may be paid—

(a) from an e-money account held by the insured person, provided that—

(i) the e-money issuer with whom the account is held holds a licence issued by the Bank of Ghana under the E-Money Issuer Guidelines; and

(ii) any agent, within the meaning of the Agency Guidelines, is authorised by the Bank of Ghana under those Guidelines;

(b) through the reduction of the insured person's airtime balance held with the participating MNO; or

(c) if permitted by the mobile insurance contract, by cash or other means.

(2) The mobile insurance contract shall specify permitted methods of payment of the premium due under the contract.

Policy Summary and Insurance Contract

Policy Summary

18. (1) A licensed insurer shall prepare a Policy Summary complying with this paragraph in relation to each mobile insurance contract that it will underwrite.

(2) Subparagraph (1) applies whether the product is distributed as the insurer's product, a branded product or a co-branded product.

(3) A Policy Summary shall—

(a) be written in plain and easy to understand language; and

(b) contain a summary of the cover provided by, and the key features of, the contract.

(4) Without limiting subparagraph (2), the Policy Summary shall contain the following information—

(a) the name of the insurer and the address of its principal office in Ghana;

(b) the type of insurance contract;

(c) a description of the risks insured by the contract and any significant or unusual exclusions or limitations;

(d) the duration of the contract;

(e) the principal benefits provided under the contract;

(f) contact details for notifying a claim under the contract;

(g) any obligations on a prospective insured person to disclose material facts before purchasing the contract;

(h) the right to complain and the method of lodging a complaint;

(i) a statement that the Policy Summary does not contain the full terms of the insurance contract, which are to be found in the policy document.

(5) For the purposes of subparagraph (3)(c), a significant exclusion or limitation is one that

(a) would tend to affect the decision of a prospective insured person or prospective insured persons generally to purchase the insurance contract; or

(b) is not normally found in comparable insurance contracts.

(6) The Policy Summary shall not contain any information other than the information provided for in this paragraph.

Provision of policy summary and policy document, individual contract

19. In the case of a mobile insurance contract that is an individual contract—

(a) the prospective insured person shall be provided with a copy of the policy summary in sufficient time for the person to make an informed decision about whether to enter into, or renew, the mobile insurance contract; and

(b) the insured person shall be provided with a written insurance policy document on the commencement of the mobile insurance contract or as soon as possible thereafter.

Claims

Payment of claims under a mobile insurance contract

20. (1) A mobile insurance contract shall provide for the method or methods used for the payment of monies due to the insured person or to a beneficiary under the mobile insurance contract on the settlement of a claim.

(2) The mobile insurance contract may provide for payment to be made by any one or more of the following methods—

(a) by payment into an e-money account held by the insured person or beneficiary with a licensed e-money issuer;

(b) by cash; or

(c) into a bank account held by the insured person or beneficiary.

(3) A claim shall not be settled by applying credit to the air time balance of an insured person or beneficiary.

Electronic communications

Electronic communications

21. (1) An insurer, insurance broker, insurance agent or MNO may communicate with, and provide documents to, an insured person by electronic means only if the insured person has given his or her consent to the use of electronic communication for this purpose.

(2) For the purposes of subparagraph (1), consent may be given by an insured person through a SMS message or another type of electronic communication or by signifying consent through the use of an application or programme.

Interpretation and Final Provisions

Interpretation

22. In these Rules, unless the context otherwise requires,

"Act" means the Insurance Act, 2006 (Act 724);

"Agent Guidelines" means the "Agent Guidelines" issued by the Bank of Ghana;

"air-time balance", at any given time, means the total value of pre-payments that a customer of a MNO has made to the MNO for telecommunications services to be provided by the MNO that, at that time, remains available for the purchase of such telecommunications services;

"agent-branded insurance product" means an insurance contract which is marketed and sold under the branding of a licensed insurance agent, who is not the MNO, rather than the branding of the licensed insurer that is underwriting the contract;

"beneficiary", under a mobile insurance contract, means a person, other than an insured person, to whom an insurance benefit is to be provided under the insurance contract;

"branded product" means a MNO-branded product, an agent branded product or a co-branded product;

"co-branded product" means an insurance contract which is marketed and sold under the joint branding of the licensed insurer underwriting the contract and either the participating MNO or a licensed insurance agent participating in the arrangement;

"commencement date" means the date specified in paragraph 27;

"electronic money", "e-money" and "e-money account" have the meanings given to them in the Bank of Ghana Guidelines for E-Money Issuers in Ghana and an e-money account includes a mobile wallet;

"E-Money Issuer Guidelines" means the "Guidelines for E-Money Issuers in Ghana" issued by the Bank of Ghana;

"group insurance contract" has the meaning specified in paragraph 26;

"hybrid product" means a mobile insurance contract of a type referred to in paragraph 25(4);

“individual insurance contract” means an insurance contract where the insured person is the policyholder;

“insurance agent” has the meaning specified in the Insurance Act;

“insurance broker” has the meaning specified in the Insurance Act;

“insurance contract” includes a group insurance contract;

“insured person”, in relation to an insurance contract, means a person entitled to a benefit under an insurance contract and includes—

(a) a policyholder; and

(b) a member of a group insurance policy;

“licensed insurer” means an insurer holding a licence issued under section 22 of the Act;

“loyalty product” shall be construed in accordance with paragraph 25;

“master policyholder” means the policyholder under a group insurance contract;

“member” of a group insurance contract means the person whose life or other interests are insured under the contract;

“MNO-branded product” means an insurance contract which is marketed and sold under the branding of the MNO rather than the branding of the licensed insurer that is underwriting the contract;

“participating MNO, in relation to an arrangement that constitutes mobile insurance, means the MNO that is a party to the arrangement;

“mobile insurance” or “m-insurance” has the meaning specified in paragraph 23;

“mobile insurance contract” means an insurance contract that is distributed under an arrangement that constitutes m-insurance;

“mobile network operator” or “MNO” means a person holding one of the following licences issued by the National Communications Authority—

(a) a licence for Mobile Cellular Operations in Ghana; or

(b) a Mobile Virtual Network Operations Licence;

“paid product” means any mobile insurance contract that is not a loyalty product;

“platform-only m-insurance” and “platform-only provider” shall be construed in accordance with paragraph 24;

“regulated activity” means any business or activity that requires a licence under the Insurance Act.

Meaning of “mobile insurance” or “m-insurance”

23. (1) Mobile insurance or m-insurance is any arrangement between a licensed insurer and a mobile network operator under which the mobile network is used as a means of distributing an insurance contract of the licensed insurer to policyholders and potential policyholders.

(2) Mobile insurance includes, but is not limited to, an arrangement under which—

(a) the MNO acts as an insurance agent for the licensed insurer;

(b) the MNO enters into a group insurance contract, as master policyholder, with the intention of providing insurance coverage to its customers, as members;

(c) the MNO acts a platform-only provider.

(3) An arrangement under subparagraph (1) includes a multi-party arrangement under which persons other than the insurer and the MNO provide administrative, technical or other services, whether to the insurer, to the MNO or to both the insurer and the MNO, whether as an insurance agent of the insurer or as an outsourcing service provider.

(4) For the purposes of determining whether an arrangement falls within subparagraph (1), it is not necessary to consider who pays the premium payable under the contract to the insurer and in particular, whether the premium is—

(a) paid by the MNO without direct or indirect recourse to the insured person or any beneficiary under the insurance contract;

(b) paid by the MNO but recovered in whole or in part either directly or indirectly from the insured person or beneficiary; or

(c) paid directly by the insured person or beneficiary.

Meaning of “platform-only” mobile insurance and “platform-only provider”

24. (1) Platform-only mobile insurance is mobile insurance provided through an arrangement under which the MNO provides an insurer with access to its mobile platform for the distribution of an insurance contract where the MNO—

(a) does not undertake any regulated activities in relation to the arrangement; and

(b) does not enter into a group insurance contract as a master policyholder.

(2) For the purposes of these Rules, a mobile network operator that provides platform-only mobile insurance is referred to as a platform-only provider in relation to that mobile insurance.

Meaning of “loyalty product”

25. (1) A “loyalty product” is a mobile insurance contract available to customers of the MNO where the premium payable to the insurer under the contract is paid by the MNO as an absorbed cost of its business, without direct or indirect recourse to the insured person or beneficiaries under the insurance contract.

(2) For the purposes of subparagraph (1), a mobile insurance contract does not fall outside subparagraph (1) merely because the level of cover provided to an insured person under a mobile

insurance contract is directly related to the amount or level of telecommunications services that the insured person purchases from the MNO.

(3) A mobile insurance contract is not a loyalty product if the cost of the premium, in whole or part, is recovered from a customer through the customer's air time balance.

(4) A mobile insurance contract that fulfils the criteria specified in this paragraph for a loyalty product but that gives the insured person the option to purchase additional top up insurance cover at the insured person's cost is regarded—

(a) as a loyalty product to the extent that the insurance premium is paid by the MNO; and

(b) as a paid product to the extent that the cost of the insurance premium is charged directly or indirectly to the insured person.

Meaning of "group insurance contract"

26. (1) A group insurance contract is an insurance contract under which the policyholder enters into the contract to provide insurance coverage to other persons who are not parties to the contract.

(2) For the purposes of subsection (1), it is immaterial whether—

(a) the premium is—

(i) paid by the master policyholder; or

(ii) directly or indirectly recovered by the master policyholder, or the insurer, from the insured person; or

(b) the master policyholder receives a payment or monetary benefit, whether directly or indirectly, arising out of the policy.

Commencement

27. These Rules come into effect on 1 November 2017.

SCHEDULE

TRANSITIONAL PROVISIONS

Paragraph 3 does not apply to an insurance contract that, immediately before the commencement date, is being distributed as mobile insurance provided that

(a) the insurer has, on or before 1 July 2018 applied to the Commission for approval under paragraph 3(1); and

(b) the application has not been refused by the Commission.

The Initiative is a partnership between:

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