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

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# 1. Understanding m-insurance: the potential and the risks

Insurance sold through and/or with a mobile network operator (MNO) (henceforth defined as m-insurance) has gained significant attention in recent years due to its rapid growth in African and Asian markets and its potential to grow inclusive insurance markets.<sup>1</sup> Over 70 m-insurance schemes have been launched globally across 15 countries (CGAP 2014 & BFA internal research), with one initiative winning an award from the insurance supervisor for its innovation and value to the consumer (Tigo, Ghana<sup>2</sup>). On the other end of the spectrum, however, there has been one dramatic failure<sup>3</sup> (EcoLife, Zimbabwe), in which 20% of the adult population was impacted overnight due to the immediate cancellation of the product. What lessons can be learnt from this experience?

Whilst failures of financial services companies are an inherent risk of any financial system, this failure of an m-insurance scheme highlights the critical need to balance the sometimes competing financial policy objectives of financial inclusion (of which m-insurance could be a powerful driver), financial stability, integrity, and consumer protection (also known as 'ISIP') (CGAP 2013). On the one hand, there is a desire to encourage innovative new delivery mechanisms to increase access to insurance, and on the other there is the imperative of maintaining trust and stability. The aim of this paper is to learn lessons from the EcoLife m-insurance case and develop recommendations with the aim of protecting clients and ensuring positive synergies between financial inclusion and these other policy objectives in the m-insurance space. The methodology utilised for this paper includes desktop research, an in-country visit to Zimbabwe to engage with key stakeholders (the insurance supervisor, MNOs, insurers, technology service providers), a demand side survey<sup>4</sup>, as well as additional discussions with global stakeholders including regulators and m-insurance providers.

## 1.1. Unpacking m-insurance

It is important to define and understand m-insurance before unpacking the regulatory risks associated with it. Simply defined, m-insurance is insurance whose sale and/or administration and payment is facilitated by a mobile phone (Leach, 2010, Tellez, 2013).

There are three dominant m-insurance models currently on the market, characterised by their model of payment— be it loyalty based (paid for by the aggregator), by means of mobile wallet payments or airtime deduction.<sup>5</sup> Each model has its own individual characteristics which are unpacked below and all use a licensed underwriter, in addition to the MNO:

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<sup>1</sup> In recent years, there have been a number of m-insurance models that have entered the global market. These include MTN Ghana and Hollard's mi-Life product, Econet and FML's Ecolife product (Zimbabwe), CIC Kenya's CIC m-Bima product, ZONG and Adamjee Life's ZONG Insurance (Pakistan) and other such products across Africa and Asia.

<sup>2</sup> See <http://business.myjoyonline.com/pages/news/201210/96398.php>

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

<sup>4</sup> Africa Corporate Advisors (Private) Limited was commissioned to undertake a survey of 600 interviews between 16 -27 September 2013 in the high density residential suburbs of Harare and Chitungwiza, and the city centre of Harare.

<sup>5</sup> Whilst these are the dominant new models, a range of insurers are also offering insurance to their post-paid (contract) clients using debit orders or adding the cost to their monthly contract.

- a) **Loyalty based m-insurance model.** In the loyalty based m-insurance model subscribers receive “free insurance” or, more correctly, insurance at no direct cost to the consumer<sup>6</sup>, from their respective MNO with the cover underwritten by a registered insurer. Cover levels are linked to a behaviour that the distributor wishes to achieve, whether increased use of airtime (the advert in Figure 1 demonstrates this - “use more [airtime], get more insurance”), increased mobile money transactions or achieving certain level of savings via mobile wallets. Examples include EcoLife in Zimbabwe, Telenor in Pakistan and Tigo in Ghana and Tanzania.



Figure 1: Example of a loyalty product

- b) **Airtime deduction m-insurance model.** The airtime deduction model is provided to the subscriber on a stand-alone voluntary basis. Premium payment is through the subscriber’s airtime balance. Examples include Zong in Pakistan and MTN in Zambia.
- c) **Mobile money m-insurance model.** The mobile money model is provided to the mobile money subscriber on a stand-alone voluntary basis, where clients are able to obtain insurance cover through the MNO and pay for it with their mobile wallets. Examples of the mobile money m-insurance model include MTN and Hollard’s mi-Life m-insurance product.



Figure 2: Example of a mobile money insurance product

Outside of these three models, there exist two other types that need to be considered:

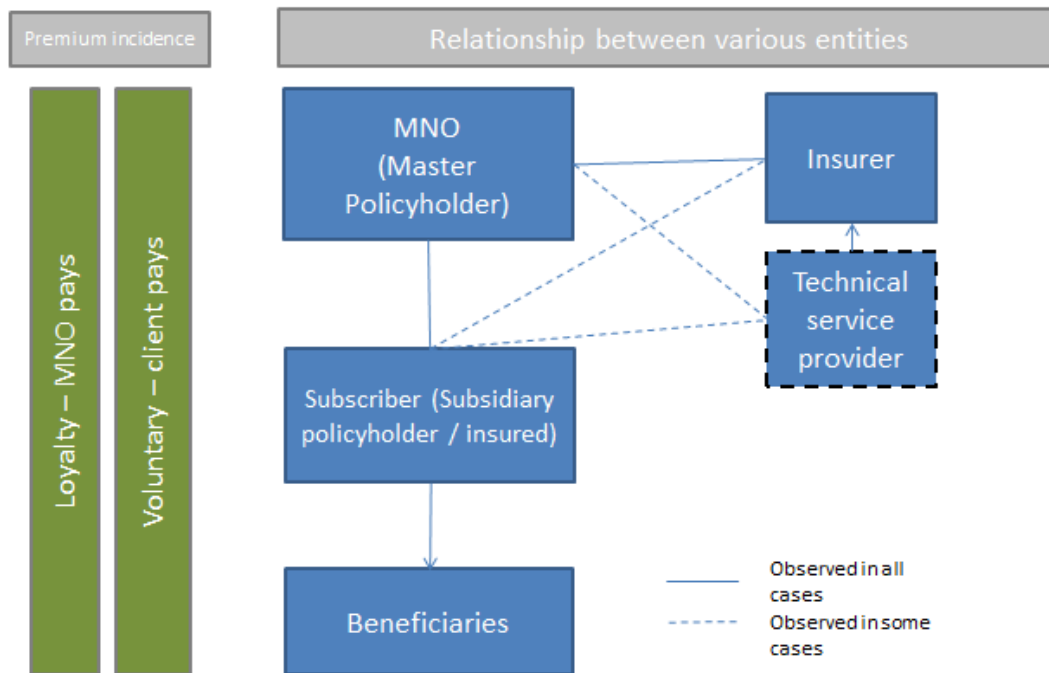
- d) **Hybrid models:** The ‘freemium model’ is also seeing some success in driving uptake. In this approach, the loyalty models mentioned above are used as the ‘market maker’ to drive market discovery by the clients so they get a ‘taster’ of insurance. The MNO or aggregator then upsells a premium product, which allows them to increase their cover. Examples include Tigo Ghana and Tigo Senegal (Levin, 2014). In time, the free option may well fall away leaving the paid model in place.
- e) **Transactional m-insurance models:** in addition to the main models mentioned above, there are of course models where the insurers use MNOs as agnostic payment platforms where they can use mobile money or airtime<sup>6</sup> as a payment platform to pay for insurance as a utility service. The focus of this study is around partnerships where the MNO endorses the insurance product, where the potential for scale and the risks of failure are higher, so these are not considered in any detail.

<sup>6</sup> The consumer will of course pay for the product indirectly as the cost of the insurance would need to be paid from revenue that MNO earns.

In terms of the sign up process, models vary from automatic models (where all targeted clients are automatically enrolled) to opt in models (where clients have to register for the service). These may be facilitated through agents through to fully self –initiated models through the mobile.

In considering the 3 dominant models mentioned above, we have found that the typical structure follows that set out in Figure 3: Stylized model of an m-insurance initiative. For more detail on the EcoLife Zimbabwe example, see section 2.1. As the legal language differs in each country we have proposed a standard language for these models:

- The **Mobile Network Operator** acts as the lead party in terms of brand and marketing and often 1<sup>st</sup> level / basic insurance queries and becomes the ‘master policyholder’ in many cases. They may also be appointed as a ‘corporate agent’, if the law allows.
- The **Insurer** carries the risk and issues the master policy and manages the administration should a technical service provider not be used.
- The **subscriber** is essentially the main person insured. Each jurisdiction differs and the Master policy may refer to them as the insured, beneficiary or other such name. We propose calling them the ‘subsidiary policyholder’. The subsidiary policyholder nominates the ‘beneficiaries’ to their policy.
- A **technical service provider** may or may not be appointed to support the administration and technical support for the scheme. Examples include [Bima](#), [MFS Africa](#), [MicroEnsure](#), and [Trustco Mobile](#).
- The **premium incidence** varies between models based on whether it is a voluntary product (paid for by the subscriber) or a loyalty model (paid for by the MNO).



**Figure 3: Stylized model of an m-insurance initiative**

## 1.2. Why should supervisors be concerned about m-insurance?

M-insurance warrants specific attention from supervisors and other key stakeholders for a number of reasons<sup>7</sup>:

*Potential for rapidly scaled distribution* –MNO agents typically outnumber insurance agents. In Kenya, there are just over 3,000 insurance agents (Cenfri, 2010) while M-PESA, Safaricom’s mobile money initiative, claims to have over 60,000 agents<sup>8</sup> (Leach 2013).

*Potential to overcome market distrust of insurance* - Demand side research in Africa shows there is limited trust of insurance companies<sup>9</sup>. Through leveraging the brand of MNOs and facilitating a positive insurance experience, m-insurance has the potential to change the market’s perception of insurance and financial services.

*MNO objectives not necessarily aligned with that of insurer*- The MNOs may be offering m-insurance to meet their own (non-insurance) objectives which may in fact be quite short term, and so may not be focused on the traditional insurance economics which sees the sustainability of the insurance scheme as the priority. This could lead to concerns around unfair competition and lack of sustainability, amongst others. For instance, should the MNO achieve its objective of increased Average Revenue Per User (ARPU) through other means, will there be any incentive for them to continue facilitating the provision of the product?

<sup>7</sup> See also the blog - Leach, 2013, M-Insurance: Ensuring Take-off While Doing No Harm. [www.cgap.org](http://www.cgap.org)

<sup>8</sup> It is noted that many of these may be dormant.

<sup>9</sup> In South Africa, insurers were less trusted as an ideal financial service provider than informal unregistered cash loan shops (FinScope). In Ghana 70% of adults would prefer to buy insurance from an MNO than an insurer (MTN-Hollard demand side research).

*MNO-insurance partnerships lead to unique regulatory considerations* – Distribution and trust are important reasons for insurers to form relationships with MNOs. However, there are challenges to these alliances both in terms of the partnership itself and from the perspective of the insurance supervisor:

- **Power imbalance.** The MNOs dwarf many insurers in terms of capital and assets and often have powerful political connections, leaving the insurer (and supervisor) subject to pressure to conform to their views. In one example, a supervisor felt unable to hold an MNO accountable as a licensed agent because it did not have the resources to challenge the MNO about poor behaviour (Leach, 2013).
- **Multiple jurisdictions.** MNOs are regulated by telecommunication authorities and do not fall under the supervisory jurisdiction of insurance supervisors. Those offering mobile money services are sometimes additionally regulated by Central Bank rules. Adding insurance supervisors to the mix by requiring MNOs to register as insurance agents adds further complexity and cost of compliance. Regulatory arbitrage also comes into play as the MNO looks to the lead supervisor and may exploit the lack of information sharing between the different supervisors. Insurance supervisors often lack adequate oversight and enforcement resources or are otherwise unable to hold MNOs accountable through lack of effective penalties.
- **MNO brand power and client ownership.** MNOs' understanding of their clients often puts them in a better position to act as disruptive innovators<sup>10</sup> as compared to traditional insurers as their brand strength, large client base, infrastructure and technology advantages provides them with a comparative advantage to expand and deepen the insurance market. This also means that the MNO brand will 'own' the client even though, legally, the relationship should be 'owned' by an insurer. This may cause client confusion around who the insurer is.
- **Premium incidence** – Depending on who pays the premium, it raises questions around (a) the level of risk concerning the failure of the product and the underwriter's ability to deliver on their promise and (b) whether there should be a differential view on risk. For example, as it is perceived as a 'free benefit' to the client, should the supervisor be more lenient in enforcing the regulations around disclosure?


It is clear that the mobile phone has the potential to enhance financial inclusion in a significant way. Whilst the entrance of MNOs into the insurance industry is generally positive, m-insurance poses significant risk to the insurance market through the sheer scale these schemes can reach, should things go wrong. This potential for scale raises the need for the supervisor to set the rules upfront. How best should insurance supervisors mitigate risk and ensure the take-off of these and other innovative insurance models whilst supporting innovation and doing no harm?

<sup>10</sup> The term 'disruptive innovation' was coined by Professor Clayton Christensen and "describes a process by which a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves up market, eventually displacing established competitors". – A good way to think about microinsurance. <http://www.claytonchristensen.com/key-concepts/>

## 2. Exploring an m-insurance failure in Zimbabwe

### 2.1. The take-off of Ecolife Zimbabwe

*Ecolife Zimbabwe had considerable success.* The Ecolife scheme was launched in August 2010. Within the first week 100,000 Econet subscribers had registered for the product and after a month this number grew to 300,000 registered subscribers, (IT News Africa, 2011). In less than 7 months, the product achieved significant take up,



More than 1.6 million Econet subscribers have registered for Ecolife

reaching a total of 1,2m (a figure claimed by Econet) or 1,6m (a figure claimed by Trustco) which equals approximately 20% of the Zimbabwean adult population. In a market where only 19% of the population have insurance (FinScope, 2012), this rapid take off is unprecedented. It raises excitement about its potential but also questions around the potential systemic impact of these schemes.

*Provision of Ecolife facilitated by tripartite partnership.* The provision of Ecolife was facilitated by a tripartite partnership between Econet – a leading Zimbabwean MNO with a 70% share of the mobile market, First Mutual Life (FML) – a prominent Zimbabwean insurer - and Trustco – a Namibian based technology service provider<sup>11</sup>.

*Ecolife legally defined as free life cover offered as a value-added service.* Ecolife was a Zimbabwean loyalty based m-insurance product provided to Econet subscribers through FML. Mawere and Sibanda describe the product as a value added service offered as ‘free’ life cover to subscribers (Mawere and Sibanda, 2013). The product was offered on a monthly term basis and required Econet subscribers to opt-in via SMS. Clients level of cover was determined by airtime usage as described in Figure 4 below. Whilst the brochure refers to a monthly ‘subscription fee’, the terms and wordings therein describe this as an airtime recharge – essentially the subscription free refers to a minimum recharge of US\$3.

*Econet and First Mutual Life sought approval from the insurance supervisor prior to launch.* Both Econet and FML sought the approval of the Insurance and Pensions Commission (IPEC) prior to the launch of the product. IPEC required that Econet register as FML’s agent and obtain the necessary licence and certificates of proficiency to do so. IPEC reviewed the agreement between Econet and FML but had not reviewed the tripartite agreement between Econet, FML and Trustco. During the approval process, IPEC requested FML to revise policy wording to ensure it was easier for clients to understand and for HIV to be removed as an exclusion. IPEC did not engage with Trustco during the approval process (Pupurai, 2013).

*Ecolife subscribers could only access terms and conditions at Econet and First Mutual Life branches and via the media.* Ecolife subscribers were not issued with individual policies as the policy was between FML and Econet on behalf of its subscribers. Econet subscribers could only access terms and conditions via the media and the Econet and FML branches. In addition, the Ecolife brochure – a document detailing terms and conditions – was only available at Econet branches and not widely accessed or distributed (Ncube, 2013).

<sup>11</sup> The responsibilities of each of the different parties were outlined in two sets of agreements: firstly an agency agreement between FML and Econet signed on the 16<sup>th</sup> of August 2010 and a broader tripartite agreement between all three parties signed on the 17<sup>th</sup> of August 2010. We understand that Econet and Trustco would have also had a bilateral agreement.



*Ecolife sold and marketed as part of an airtime package with free life cover as an additional benefit.* Econet was marketed to subscribers as an airtime package offering free life cover. Subscribers enrolled through sending an SMS to a nominated number with policies being activated from the date of recharging a minimum of US\$3. For a minimum airtime spend of US\$3 (the 'subscription fee'), Ecolife subscribers qualified for a number of benefits namely:

- 15 minutes of free airtime,
- 6 premium rated SMS'(worth US50 cents each)
- 'Free' life cover for airtime spend over and above the US\$3 subscription fee (Ecolife product brochure, 2010).

*Understanding the calculation of free life cover.* The level of life cover is calculated through a two step process - calculating the maximum possible benefit and then averaging it over the six months since activating the cover:

- **Step 1 - Calculating maximum possible benefit.** The maximum possible benefit was calculated as a multiple of airtime usage over 30 days subject to a minimum of US\$30 and a maximum of US\$10,000. Table 1 below shows the maximum possible benefits possible and the various multiples for the various monthly airtime recharges. E.g. should a client purchase US\$11 worth of airtime every 30 days, maximum benefits possible are US\$1100.

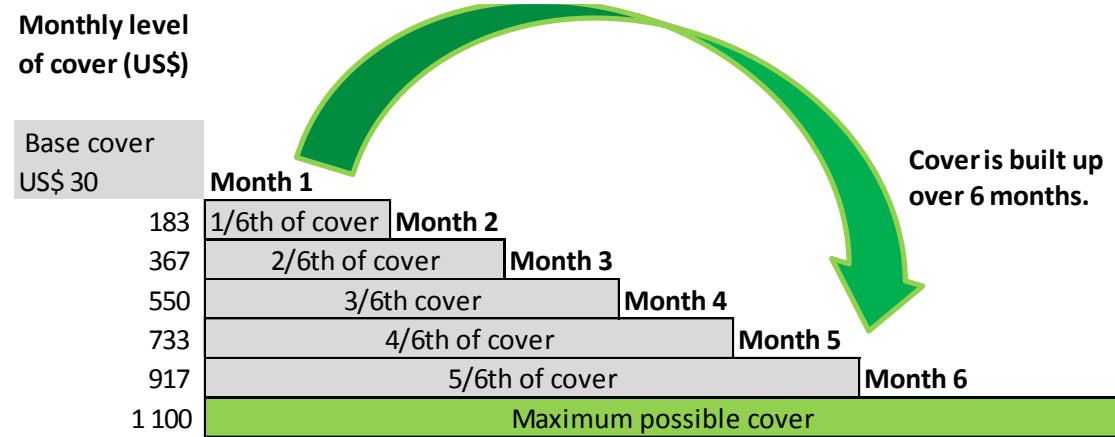
Airtime voucher	Cover multiplier	Free life cover amount
US\$ 1.00 to US\$4.00	x10	US\$10 - US\$40 (min \$30)
US\$5.00 - US\$9.00	x20	US\$100 - US\$180
US\$10	x50	US\$500
US\$11.00 - US\$100.00	x100	US\$1100 - US\$10000

**Table 1. Calculation of maximum benefit payable to Ecolife clients**

*Ecolife product brochure, 2010*

- **Step 2 – Determine the life cover due.** The level of cover is calculated over 6 months from the period of activation. In month one (policy inception), cover is therefore one sixth of the maximum benefits possible (with a minimum of US30), in month two – two sixths and so on with the subscriber being eligible for full cover in month 6. During the first few months, cover is therefore very limited but builds over time as shown in Figure 4.

Figure 4 below shows the level of cover over 6 months for the same individual utilising US\$11 airtime once every 30 days over a period of 6 months (180 days).



**Figure 4. Summary of calculation of Ecolife cover**

Source: Ecolife brochure, interviews, author's analysis

*Complex pricing model can create some confusion.* The calculation of the premium and level of cover was based upon what was a complex pricing model – requiring clients to understand what the maximum cover possible was and averaging this over a 6 month spend. Full cover was in fact only achieved after 6 months continuous subscription which did not appear to have been immediately understood by the majority of Econet subscribers, especially those that fall within the low-income market segment. Should one miss a monthly recharge of \$3, one would then start from the bottom again.

*Duties and responsibilities of tripartite partnership parties.* The duties and responsibilities of all parties are defined as shown in Table 2 below. All parties played an administrative role with Trustco and Econet both dealing with policy acquisition and policy administration, while FML dealt with claims administration (High Court of Zimbabwe, 2011, TechZim, 2011, Pupurai, 2013, author interviews).

*Claims process.* FML as the underwriter administered claims for the Ecolife product. Subscribers were required to submit the relevant documentation at FML branches.

Role/activity		Entity	Responsibility
Intermediation		Econet	Econet served as the aggregator, the master policyholder and acted as FML's agent. Econet was responsible for marketing the service.
Risk carrier/underwriter		First Mutual Life	FML served as the underwriter
Technology service provider		Trustco	Trustco designed the Ecolife platform and developed the product concept.
Administration	Policy acquisition	Econet and Trustco	Econet marketed to their clients and, with Trustco systems, captured the client information.
	Policy administration	All	Policy administration was split across the three organisations in terms of systems, queries and data capturing.
	Claims administration	First Mutual Life	FML managed claims submissions, queries and payment.

**Table 2. Understanding various Ecolife partners and their respective responsibilities and activities**

Source: High Court of Zimbabwe, 2011 and TechZim, 2011

## 2.2. The collapse of EcoLife Zimbabwe

Fall out between Econet and Trustco resulted in immediate cessation of Ecolife. On the 7<sup>th</sup> of June 2011, 7 months after the launch of the product, Trustco gave notice to Econet due to a dispute concerning royalties<sup>12</sup>. Shortly after this the service was suspended. Without the Trustco platform, Econet was not able to manage the product. The fall out resulted in the cessation of Ecolife and overnight, 1.6 million Econet subscribers lost their Ecolife cover (High Court of Zimbabwe, 2011). For an overview of the timelines of EcoLife, see Figure 5: The ups and downs of Ecolife

*Negative impact on the market.* Demand side research was conducted to test the impact of the failure of the Ecolife product on the Zimbabwean market. While other m-insurance initiatives had been launched in Zimbabwe, we sought to understand the failure of the Ecolife product given its prominence and significant uptake in comparison with its counterparts. 55% of respondents who indicated they had an m-insurance product indicated they were

### **Impact of the failure of EcoLife Zimbabwe**

1,6m people / 20% of the adult population were reached by EcoLife Zimbabwe in 7 months before it was cancelled. Upon cancellation:

- 62% were not notified about its cancellation
- 63% ruled out use of similar products in future
- 42% dissatisfied with insurance

<sup>12</sup> It was claimed that Trustco began to demand a higher royalty than was originally agreed.

dissatisfied with that particular product. 60% of respondents who indicated they were Ecolife clients were not informed that the product had been discontinued. Only 17% indicated they had received formal notification of the product's discontinuation. Sadly, none of the dissatisfied m-insurance users filed a complaint with the Consumer Council of Zimbabwe or the Insurance and Pensions Commission, indicating that consumer recourse cannot necessarily be relied upon to ensure consumer protection ex post. (Africa Corporate Advisors (Private) Limited, 2014).

*Complex pricing model and cumbersome communications potentially exacerbate negative impact.* Whilst the primary negative impact was around the cessation of EcoLife, the complex and unclear pricing model also raised concerns as it would likely lead to misunderstandings by clients. With the demand side research finding that 42% were dissatisfied with insurance after the cancellation of the EcoLife policy, this is a real concern. Mistakes were also admitted around the communication process which led to a Facebook campaign by Ecolife subscribers against the number of SMSs, "*We thought that every time when a person tops up he wants to know how much life coverage he gets. People don't want to know that, they want to know once a month. Also the SMSs clogged the systems of the mobile operators*" (Trustco MD, Quinton Van Rooyen<sup>13</sup>). FML had received complaints from customers stating that they received numerous SMSs which were confusing (Econet, 2011).

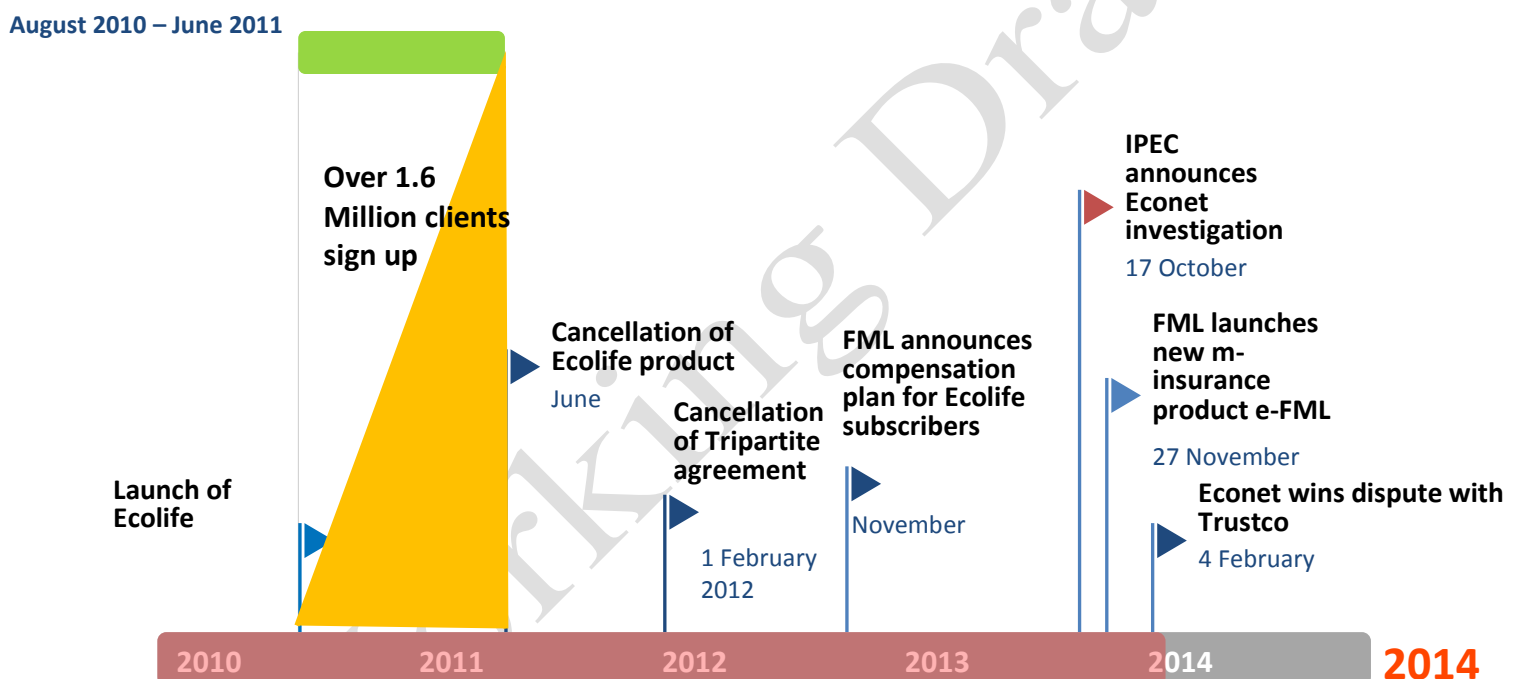
*Supervisor's response to the failure of the product required FML to compensate policyholders.* Following the cessation of the product and the fall out of the partnership, IPEC immediately contacted both Econet and FML and met with both parties (Pupurai, 2013). Econet indicated that Trustco had withdrawn their transaction platform. IPEC requested that FML cancel Econet's agent licence. IPEC had considered penalising Econet (as FML's agent) for the immediate cessation of the product but considered that the value of such penalties would be too low (maximum fine was \$5,000) considering the size of Econet and would have no real punitive impact. We understand that FML had also considered taking Econet to court, but decided against it.

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<sup>13</sup> <http://www.economist.com/na/headlines/1936-trustco-prepares-for-big-leap>

*FML rescinds on promise to compensate policyholders.* In March 2013 following a request from IPEC, FML announced that they would compensate any former Ecolife clients of any outstanding claims. However, in December 2013 it was announced that FML had decided not to compensate former Ecolife clients and the insurer had gone on to launch a new m-insurance initiative, e-FML (Southern Eye, 2013<sup>14</sup>). It is not clear how one would compensate a policyholder for the cancellation of a risk policy as there was no savings component. In interviews, it was apparent that compensation was a matter of honouring claims submitted during the period the scheme was in existence.

*Supervisor had limited financial and legal resources to hold all parties accountable.* One of the key challenges that were cited was IPEC's limited ability to hold Econet accountable as Econet had significant legal resources at their disposal. This was further exacerbated by IPEC's limited understanding of the product model.



**Figure 5: The ups and downs of Ecolife**

It is clear that the failure of m-insurance models at this scale will negatively impact the market. This is a significant risk in jurisdictions where there is limited formal insurance penetration and the insurance industry is still in its infancy. In such an environment, the reputational risk for the industry at large associated with a failure is even more pronounced, as it can lead to negative market discovery and general distrust of insurance – essentially meaning that it can stop the market taking off before it has even started.

<sup>14</sup> <http://www.southerneye.co.zw/2013/12/01/first-mutual-life-clients-limbo/>

### 3. Overview of the m-insurance regulatory framework in Zimbabwe

In this section we discuss the current regulatory scheme applicable to m-insurance in Zimbabwe with particular reference to Ecolife.

*Zimbabwean m-insurance regulatory scheme covers insurance, telecommunications and payment systems jurisdictions.* The Zimbabwean regulatory scheme pertaining to m-insurance covers the three market jurisdictions of insurance, telecommunications and payment systems. However, it is important to note that the regulatory scheme may vary for the different m-insurance models.

*Ecolife primarily fell under insurance supervisory and regulatory scope.* Ecolife was an insurance product and thus fell under the regulatory and supervisory authority of the insurance supervisor. The applicable insurance legislation and regulations pertaining to m-insurance are covered in the Insurance Act<sup>15</sup>, Insurance Regulations<sup>16</sup> and subsequent amendments. Policy holder protection rules for insurers are in the form of the good practice and corporate governance requirements stipulated for insurers.<sup>17</sup> It is noted that there were a number of gaps in the current legislation which would be important for m-insurance – (a) insurance agent licenses in respect of life policies may only be issued to individual agents and not corporate agents; (b) there are currently no provisions relating to the duty to disclose commissions paid to various intermediaries; (c) penalty provisions are too limited to be effective; and (d) the administrators are not regulated entities – see below (Mawere and Sibanda, 2013).

*Administrators are not regulated which limited scope for the supervision of Trustco.* The concept of a separate *insurance administrator* is not part of Zimbabwean law except for in the area of pension funds. Duties such as policy acquisition and claims processing which are normally carried out by insurance administrators in other jurisdictions are carried out by the registered insurer itself and/or the insurance agents and insurance brokers in Zimbabwe. Consequently, there was no scope for Trustco to register with or be licensed by IPEC as an administrator for its role in the Ecolife scheme. This raises some concerns as they were effectively carrying out insurance activities without effective regulatory oversight (Mawere and Sibanda, 2013).

*Telecommunications regulator perceives m-insurance as outside of its jurisdiction.* Consultations with the telecommunications regulator, the Post and Telecommunications Regulatory Authority indicated that it only oversees value added services that are of a telecommunications nature. Thus, since Ecolife was an insurance product, it did not have supervisory authority over this product. However as the insurance essentially was a discount in the airtime, it appears that they should have had some interest in this matter. This may potentially apply to all m-insurance models.

*Ecolife fell outside of the payment systems and central bank regulatory and supervisory scope.* The National Payment Systems Act (Chapter 24:23) regulates and governs the systems

<sup>15</sup> (Chapter 24:07)

<sup>16</sup> See Statutory Instrument 49 of 1989

<sup>17</sup> See Part 1A of the Insurance Regulations contained in Statutory Instrument 49 of 1989 as well as in the Special Financial Requirements for the Carrying on of Insurance Business which are stipulated in Part VI of the Insurance Act (Chapter 24:07)

for the clearing of payment instructions between recognised financial institutions. In order to fall under the scope of the Act, the parties making and receiving payment must both be recognized as financial institutions by the Reserve Bank of Zimbabwe. Econet was the only recognized financial institution but only for the provision of mobile financial services as it had sought prior approval from the Reserve Bank of Zimbabwe for its mobile wallet, EcoCash. The National Payment Systems Act would have been applicable in the case that Ecolife required payment of premiums via mobile wallet. In addition, during the time of writing there were no gazetted regulations under the National Payments Systems Act which are applicable to the provision of financial services by institutions outside of the financial sector (Mawere and Sibanda, 2013).

M-insurance model	Supervisory jurisdiction		
	Telecommunications	Payment systems (Central Bank)	Insurance
Loyalty	No - Telecommunications regulator only oversees value added services pertaining to telecommunications strictly, although this is questionable	No - National Payment Systems Act governs the systems for the clearing of payment instructions between financial institutions which means that the two parties who are making and receiving payment must both be recognized as financial institutions by the Reserve Bank of Zimbabwe.	Yes - Ecolife was an insurance product requiring compliance with the country's insurance laws.
Airtime deduction	No - same as above	Depends - unless the use of payment of airtime is recognised as a store of value	Yes - same as above
Mobile wallet	No - same as above	Yes	Yes - same as above

**Table 3: Regulatory schema for m-insurance**

Source: Author's analysis

There were a number of gaps in regulatory oversight of EcoLife. In exploring this case study, we found that there were a number of gaps in the regulatory oversight of the Ecolife product:

- Trustco, an external entity served as a form of administrator but did not fall under the jurisdiction of the Zimbabwean supervisor as there are no regulations pertaining to administrators except for in pension funds. FML did not have sight of all the activities of Trustco and, according to media reports, there were separate contracts between Econet and Trustco related to their partnership.
- Econet essentially served as FML's commercial agent, yet commercial agents are not permitted under Zimbabwean law.
- EcoLife was a value added service linked to the airtime spend (essentially providing a discount to the airtime) and yet POTRAZ, the telecoms regulator, did not oversee VAS or play a role in joint supervision. As Ecolife was a value added service which was not a telecommunications service, POTRAZ had no statutory duty to regulate the product (Mawere and Sibanda, 2013) whilst they would have jurisdiction over pricing of airtime if it was proven to be a discount of airtime.

*Regulatory framework determined by the m-insurance model applicable.* The m-insurance regulatory framework is largely dependent on the m-insurance model – airtime, loyalty and mobile money models have different regulatory implications and oversight. This is explored in Table 3 above where we assess the regulatory schema for m-insurance.

#### **4. Framing the consumer protection risks pertaining to m-insurance**

The Ecolife discontinuation points to a number of risks that are applicable to m-insurance products. Failure to address these primary risks also potentially results in consequential risks that have far reaching impact on the development of the insurance sector as a whole.

In Table 4 below we assess the primary and consequential risks potentially arising from m-insurance products. To complete this, we use a typology of microinsurance business model risks developed from a synthesis of global microinsurance studies which the Access to Insurance Initiative is leading (Cenfri on behalf of A2ij, forthcoming). The typology describes the risks that the evolving microinsurance business models give rise to and the consequent regulatory implications and so we have applied them to the Ecolife Zimbabwe product

Working Draft



Microinsurance Risk	Description	Risk drivers and their application to Ecolife
<b>Prudential risk</b>	Risk that insurer not able to keep its promises and deliver benefits - can relate to deficient entry requirements; inadequate risk management practices; scale of the underwriter; defective product design and limited supervisory capacity.	<ul style="list-style-type: none"> <li>• Whilst the scheme was technically solvent in the case of Ecolife, the scale achieved by m-insurance models poses some risk, should claims be higher than expected. This is exacerbated by the typical lack of actuarial data which limits the ability to price risk appropriately.</li> <li>• Lack of capacity and technical understanding of m-insurance by the supervisor limits ability to drive effective oversight, e.g. IPEC recognised that m-insurance was new to them, that administrators such as Trustco were not recognised by law and that the proposed product structure and approach was not clear.</li> <li>• The punitive tools were also too limited to be effective - a maximum fine of \$5,000 was an irrelevant fine for an MNO such as EcoNet.</li> <li>• Regulatory framework did not explicitly accommodate m-insurance.</li> </ul>
<b>Aggregator risk</b>	Where insurer accesses the aggregated client base of a non-insurance third party to sell its products through that platform – reduced value to client due to inappropriate product; disproportionate costs due to the distribution/partner structure; legal relationship between insurer and aggregator and client not clear.	<ul style="list-style-type: none"> <li>• FML was unable to hold Econet accountable due to power imbalance with the latter being a major corporate conglomerate. This resulted in disproportionate bargaining power between the parties. In addition, FML was also unable to hold Trustco accountable as Trustco is a foreign and unregulated entity whose main contractual relationship was with Econet.</li> <li>• Inadequate disclosure to the clients as they were not issued with individual policy documentation detailing the terms and conditions.</li> </ul>
<b>Sales risk</b>	Risk that sales person will misrepresent the product to the client or sell a product that the client does not need - the skills, training and accountability of the salesperson is relevant here.	<ul style="list-style-type: none"> <li>• The complex pricing model increased the risk of clients misunderstanding the product and the cover that was being offered. This was further exacerbated by the fact that clients were not issued with individual policy documentation.</li> <li>• No clear point of contact for the clients - either FML/Trustco or Econet</li> <li>• Misalignment of incentives across various parties as each had their own objectives.</li> </ul>

Microinsurance Risk	Description	Risk drivers and their application to Ecolife
<b>Policy awareness risk</b>	Risk that the insured are not aware they are insured – e.g. models such as public policy initiatives where the state pays the premium and embedded products where insurance is embedded in another product such as credit or a bank account have an increase risk that the consumer will not be aware of their cover.	<ul style="list-style-type: none"> <li>• SMS registration policy initiation method presents risk of client not being fully aware they are insured.</li> <li>• Ecolife subscribers had limited access to policy documentation as written terms and conditions were only available at FML and Econet branches.</li> <li>• Complex terms and conditions potentially meant that clients did not fully understand the product.</li> <li>• Clients were inundated with SMSs which may have resulted in confusion.</li> <li>• Over 60% of Ecolife subscribers contacted in the survey were unaware of the sudden termination of Ecolife</li> </ul>
<b>Payment risk</b>	Risk that premium will not reach the insurer or collecting a premium will be very costly – prior (contractual) relationship between intermediary & client relevant; payment options and instruments available to client; geographic proximity.	<ul style="list-style-type: none"> <li>• Econet was responsible for paying the premium over to the insurer. As the scheme was terminated without due notice Econet owed FML premium leaving Ecolife subscribers uncovered.</li> </ul>
<b>Post sale risk</b>	Risk that insurer does not honour its commitments after accepting the policy and receiving the premium - delays in processing claims; paying the wrong party (risks other than prudential risks).	<ul style="list-style-type: none"> <li>• Claims process was unclear. There was lack of clarity around who was responsible – Econet or FML.</li> <li>• Clients with limited knowledge and experience of formal insurance may have struggled to claim due to unclear claims requirements and processes.</li> <li>• Lack of reasonable access to the insurer as clients mainly interacted via mobile phone.</li> <li>• FML potentially an unknown insurer as clients managed the product via mobile phone and limited involvement of actual agents.</li> <li>• Insurance was not Econet's primary business and sales staff or agents may not have been well informed concerning the product.</li> </ul>

Microinsurance Risk	Description	Risk drivers and their application to Ecolife
<b>Data risk</b>	Risk that the underwriter's operational systems do not provide correct, complete and up to date data on how the business is managed or that confidential client data is lost or not kept confidential.	<ul style="list-style-type: none"> <li>Trustco held ownership of IT platform facilitating provision of the product. FML also relied on data from Econet to calculate the client's cover. FML as the underwriter had limited access and control of client data limiting their ability to effectively underwrite the product. For example, in court proceedings it was claimed that EcoNet was not providing the required data to Trustco which would allow them to administer the product effectively. This also led to disputes around the number of clients under cover with claims varying from 1,2m to 1,.</li> <li>There were various system glitches which were beyond the control of FML as they did not have direct access or control of the IT platform or data (First Mutual Life, 2011)</li> </ul>
<b>Regulatory backlash risk</b>	The risk that the supervisor may impose stringent regulatory requirements that limit the development of m-insurance.	<ul style="list-style-type: none"> <li>The failure is likely to lead to a more conservative licensing environment. The current investigation of EcoFarmer by IPEC is a case in point<sup>18</sup>.</li> </ul>
<b>Systemic risk</b>	Risk of the collapse and destabilisation of the entire insurance market due to failure to provide value to clients and deliver on promise which may result in a market backlash.	<ul style="list-style-type: none"> <li>Whilst insurance companies and supervisors typically argue that insurance creates limited systemic risk, m-insurance's ability to achieve scale rapidly coupled with the potential for market distrust exposes the market to significant systemic risk.</li> <li>Demand side research found that 60% of Ecolife clients that were included in the sample did not receive notification that the cover was cancelled – which, extrapolated, would represent an indicative 12% of the adult population. Overall, 50% of the clients sampled were dissatisfied with the product (i.e. an indicative 10% of the adult population). At these levels, systemic risk may be introduced into the system.</li> </ul>

**Table 4. Application of microinsurance risks<sup>19</sup> to m-insurance and Ecolife Zimbabwe case**

Source: Cenfri on behalf of A2ii, forthcoming, and Author's own analysis of consequential risks

<sup>18</sup> See for example <http://bulawayo24.com/index-id-business-sc-companies-byo-37574.html>

<sup>19</sup> Note that the risks highlighted here are not unique to microinsurance business models, but have a specific manifestation in the inclusive insurance sphere due to the specific nature of prevalent distribution channels and the parties involved in such channels.

The analysis in Table 4. Application of microinsurance risks to m-insurance and Ecolife Zimbabwe case demonstrates that, should things go wrong, large-scale m-insurance models may pose significant risks to consumer protection and to the market more broadly. This begs the question: how best can regulators manage the potential risks arising from m-insurance products?

## 5. Indicative recommendations concerning the regulation of m-insurance

In this section, based on the lessons drawn from this case study and the authors experience in both launching and researching m-insurance schemes, we introduce indicative recommendations for insurance regulators when reviewing m-insurance products. These are ultimately key questions and issues that insurance regulators should clarify beforehand to manage any potential risks arising from m-insurance products and are based on observations concerning the Ecolife Zimbabwe case.

### Box 1. Indicative recommendations concerning the regulation of m-insurance

1. Define the m-insurance product
2. Clarify the policyholder
3. Define the nature of the legal relationship and the responsibilities pertaining to all parties involved
4. Determine whether premium incidence changes the risk profile
5. Assess whether there are appropriate levels of disclosure
6. Clarify consumer recourse options available
7. If you fail, then fail well - creating a living will

### 5.1. Define the m-insurance product

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

*Rationale:* Unless the product is appropriately defined, it will be challenging to effectively regulate it. Econet argued in court papers that Ecolife was a value added service and offered at their behest (essentially arguing it was not insurance). However where there is a guaranteed benefit, then it will typically be treated as insurance.

### 5.2. Clarify the policyholder

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

*Rationale:* It is important to understand the nature of the policy agreement and how it is constructed. Master/group policy agreements are constructed differently to individual policy agreements. Individual policy agreements place a greater responsibility on the insurer to provide full disclosure of the terms and conditions. Master policy agreements may not place as much responsibility on the insurer to disclose terms and conditions to the subsidiary policyholder as the proof of cover may lie with the master policyholder (typically the m-insurance aggregator). This is an important consideration given that m-insurance policies are typically constructed as a group scheme. In EcoLife's case, Zimbabwe had no regulations pertaining to group policies which may have led to risk being brought into the system.

### 5.3. *Define legal relationships and responsibilities*

The legal relationship and responsibilities of all parties involved in facilitating the provision of the product need to be mapped out in terms of the regulatory environment and oversight.

*Rationale:* There are various parties involved in the provision of m-insurance who do not fall under the supervisory jurisdiction of the insurance supervisor and the demarcation of responsibilities among the various parties involved is sometimes not clear. Clarifying the nature of the legal relationship between the various parties and the responsibilities helps to enforce accountability of all parties across the m-insurance value chain and set up the basis of inter-supervisory coordination and oversight. This will require a comprehension of the m-insurance regulatory scheme upfront and the interconnection between the insurance, telecoms and payments (for voluntary schemes) regulatory regimes.

MNOs typically have greater resources at their disposal which creates a power imbalance with the other players within the value chain which is exacerbated by the potential for regulatory arbitrage as per the gaps we identified above.

### 5.4. *Determine whether premium incidence changes the risk profile*

The premium incidence should be assessed to understand the parties involved and understand whether the regulation allows for the model eg group policies or loyalty schemes.

*Rationale:*

- i. EcoNet has argued in court that insurance offered as part of a loyalty points promotional programme (even when underwritten by an insurer) should not be treated in the same way as a typical insurance policy (Mawere & Sibanda, 2013). EcoNet are essentially arguing that the premium incidence determines the rights and obligations for the insured (the subsidiary policyholders) and the level of risk for the insurer.
- ii. Arguably a corporate policyholder should be more sophisticated than an individual and understand the risk better. This could allow the supervisor to place a lower onus on these types of schemes where the corporate pays the premium on behalf of the client as in the traditional loyalty models.
- iii. However, for a loyalty program, it is clear that the subsidiary policy holder (subscriber) will be contributing to the policy either directly (directly paying for the premium) or indirectly (through the revenues of the MNO).

*Client perspective on the premium incidence:* In considering whether the policy was a pure loyalty benefit or was seen to be paid for by the client, one needs to consider the client's perspective. When reviewing the survey, it is apparent that the impact of the failure is the same whether or not there is the perception of premium incidence by the client - 42% were dissatisfied with insurance; 30% said there are now better ways to protect against future problems than insurance. Supervisors therefore need to examine the substance of the scheme rather than the form in

- iv. In this example, there is doubt that Ecolife was purely a loyalty programme as the actual expenditure of the subscriber determined the level of cover – insurance cover was calculated as 10 times the US\$ value of airtime purchased, averaged over 6 months, with a maximum cover of US\$10,000 (see Figure 4. Summary of calculation of Ecolife cover). The actuarial submission to the insurance supervisor further allocated a premium rate to the subscriber (First Mutual Life, 2010). Whilst this raises the question of whether this is an effective discount of the airtime (which is a heavily regulated matter by telecoms regulators) it also raises the question of whether the subscriber was paying the premium directly rather than the MNO (even if only a perception). Either way, the premium incidence falls on the subscriber directly or indirectly.

It is our working recommendation that that the premium incidence does not change the nature of the risk. Whether it is a loyalty scheme or a voluntary scheme, clients should have the same rights and obligations – such as that the policy cannot be cancelled outside of the term of the policy and that the product terms should be communicated effectively. This will require the supervisors to have a clear framework for group and subsidiary policyholders.

### **5.5. Assess whether there are appropriate levels of disclosure**

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

*Rationale:* m-insurance models are at a nascent stage of development and are testing the limits of digital sales, which have the benefit of enhancing the reach of inclusive insurance markets as well as lowering the cost of service which should improve affordability. However, this may be at the cost of a well-informed client base. Policy makers and supervisors should consider monitoring new m-insurance initiatives to assess:

- that adequate content is provided to customers (including information about product features, terms and condition, rights and obligation of customers, information on the insurer, claims handling, claims dispute and resolution mechanisms);
- whether the mode of disclosure is effective in communicate information to customers eg SMS, voice or paper documentation and which language is appropriate. (Hougaard and Estey, Forthcoming)
- The timing for disclosures. For example, with an m-insurance product should SMSs be sent to the client during various stages of the sign up process?

In a positive example, the Ghanaian National Insurance Commission undertook a survey of the supply and demand for microinsurance and awarded Tigo Family Care Insurance the most successful microinsurance product in Ghana<sup>20</sup>. These types of surveys should be undertaken on a more regular basis and certainly fit in with the growing focus on Treating Customers Fairly<sup>21</sup>.

<sup>20</sup> <http://www.cgap.org/blog/can-phones-drive-insurance-markets-initial-results-ghana>

<sup>21</sup> This builds on IAIS Insurance Core Principles 19, Conduct of Business. A more comprehensive Treating Customers Fairly framework is also being rolled out in the UK and South Africa (Feasibility, 2010).

## 5.6. Clarifying consumer recourse options

Clients and subscribers should have clear consumer recourse options and be educated around their options in an appropriate and accessible manner.

*Rationale:* This is critically important given the limited face to face interaction that comes with utilising mobile phones for financial services. Demand side research indicated that whilst 50% of clients were dissatisfied with the product, none of the Ecolife subscribers interviewed sought recourse through the insurance supervisor. This was supported by the interviews with the supervisor and insurer who were not aware of receiving any complaints. As one of the ultimate regulatory objectives is to “inspire public confidence” (IPEC website), clients must feel empowered to address their complaints.

## 5.7. Creating a living will

Whilst failures are an inherent part of a financial system, it is important to ensure that a failure is managed well and limits the impact on the market – “if you fail, then fail well”. Creating a ‘living will’<sup>22</sup> ex ante allows one to set the rules around failure in a way that manages the likelihood of a negative systemic impact (Leach, 2013).

Living wills, now commonly known as ‘Recovery and Resolution Plans’ (Erasmus & Mackintosh, 2013; Deloitte, 2010) became popular after the 2007-2008 financial crisis when governments became concerned about underwriting the losses of banks upon a failure. Whilst they are typically aimed at supporting a responsible wind down of a financial institution, we argue that the potential scale of the m-insurance schemes means that a similar approach should be taken when approving m-insurance initiatives. This could include the insurer, MNO, and supervisor jointly agreeing on:

- ensuring a sufficient and well-communicated notice period;
- that alternative options are available to clients, including voluntary paid cover, before the scheme is stopped;
- arrangements are made concerning appropriate payment mechanisms for the alternative schemes;
- ensuring that the MNO and insurer continues to monitor and address complaints for a set period;
- the supervisor is routinely updated on the wind down of the scheme and the levels of complaints

*Rationale:* Compliance with all the above recommendations does not guarantee m-insurance products will not fail. Therefore it is important for the supervisor to ensure that there is a contingency plan in place should things go wrong, as a means of safeguarding against market disillusionment and systemic risk. These actions would potentially limit the damage to the market arising from the failure of the product.

<sup>22</sup> See for example <http://online.wsj.com/news/articles/SB10001424052702304211804577505011956447968>

## 6. Conclusion

M-insurance offers significant potential to increase access to insurance for the under and unserved populations. Supervisors should be encouraged to find ways to support these models. However, unlike traditional micro-credit which takes a long time to grow, the potential for scale can create systemic risk and therefore more focus should be placed on setting rules up front and closely observing the initiatives. So, whilst the dictum “do not rush to regulate”<sup>23</sup> has important lessons for supervisors in a nascent market, there is also a need to set rules ex ante to ensure that one ensures a positive synergy between financial inclusion and a stable and well-functioning insurance sector. In line with the principle of proportionality, there is a need for a more stringent ‘test and learn’ approach (GPII 2010, IAIS, 2012) than would typically be the case for initiatives that do not pose the same systemic risk.

This case study and recommendations are only the start of a learning process of how to manage these fast growing schemes. We welcome the opportunity to build off this paper and develop a clearer view on how to ensure synergy between financial inclusion and a stable protected inclusive insurance market.

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<sup>23</sup> See Christen & Rosenberg, 2000, The Rush to Regulate: Legal Frameworks for Microfinance. CGAP.



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## Appendix: Timeline of the EcoLife failure:

- 7 October 2010 – “free” embedded life insurance product launched by Econet, Trustco and First Mutual Life
- 31 March 2011 – Trustco announces there are 1.6 million clients. / EcoNet claims there were only 1.2m.
- 30 May 2011 – Econet ceases to offer Ecolife product following unilateral cancellation by Trustco after they claim non-payment of royalties
- 6 June 2011 – Econet issues press statement assuring clients that the product will be revived
- 25 July 2011 – High Court of Zimbabwe issues interim order stating Econet in breach of contractual obligations. Econet immediately submits an appeal to the Supreme Court
- 19 May 2012 – “Trustco seeks to have Econet directors jailed for 90 days over Ecolife” for contempt of court –allegedly as Econet were planning to establish their own system.
- 16 November 2012 - FML proposes compensation to Ecolife policy holders following intervention by IPEC.
- 4 February 2014 – international arbitrator dismisses claim by Trustco.