

# MicroSave India Focus Note #118

## Mobile Insurance Trends: The Curious Case of India

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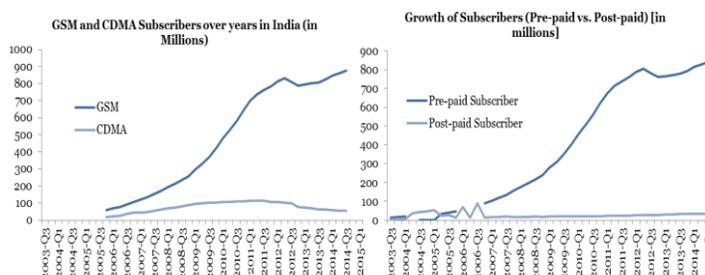
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Mobile insurance, as we know it today, first emerged in India way back in 1997. Following Bharti Axa – Airtel’s “telcassuranc” experiment, three other MNOs launched insurance for their loyal clients.<sup>1</sup> However, none of them continued these products more than 2-3 years after inception. Now, when loyalty-based and other mobile insurance (mInsurance) products are offered to millions of people across globe, Indian insurers and MNOs are conspicuously absent from the sector. It is a commonly held belief that India’s slow regulatory response is the key reason for this apparent apathy towards mInsurance. However, it is also imperative to analyse the evolution of the Indian telecom industry to understand why MNOs continue to shy away from mInsurance after such an enthusiastic start. In this Note, we discuss how the growth of the telecom industry in India has shaped mInsurance trends and possibilities for mInsurance in the future.

### Telecom Sector Trends and mInsurance

The [previous Note](#) discussed how the advent and growth of loyalty-based mInsurance is a function of the business cycle and strategic objectives of the telecom industry.<sup>2</sup> MNOs design or subscribe to mInsurance to fulfil one or more of their business objectives: to increase client base or outreach; to increase usage; or to reduce client churn, and/or increase the time clients spend as part of/subscribed to the network. Since Indian MNOs had to manage profitability in a competitive and growing market with low revenue and high churn, they remained focussed on cost efficiency, often at the cost of customer loyalty programmes like insurance.

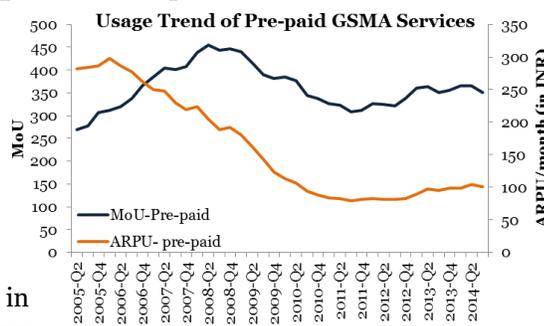
**The growth amid intense competition:** For more than half a decade (2003 to 2011), Indian MNOs cumulatively acquired 8-9 million customers every month. To grow at such rapid rate and maintain sustainability, Indian MNOs preferred the GSM pre-paid business model, since it provided significant cost advantage by reducing cost of client acquisition (COCA),



as well as high margin through micro pre-paid airtime recharges.<sup>3</sup> Though there was scope for MNOs to achieve higher market share through insurance like incentive schemes, most of them preferred to focus on cost efficiency to balance the impact of an already burgeoning churn rate (50-60% Y-o-Y<sup>4</sup>) and very low ARPU (USD1.5 per month<sup>5</sup>).<sup>6</sup> Despite such low ARPU and high churn, Indian MNOs maintained a margin of around 40%, due to minimised management cost, very low cost of client acquisition (COCA) and outsourced infrastructure management.<sup>7,8</sup> Any loyalty programme (e.g., insurance) to increase client base would have increased COCA, an investment considered wasteful in a growing market focussed on doing business at the lowest possible cost.

### Revenue remained low, but usage consistently trended upwards:

Despite low ARPU, India stands at a global high in terms of minutes of usage (MoU). MoU per subscriber per month in India is 351 minutes, and annual cumulative voice MoU is in upwards of 3,000 billion.<sup>9,10,11</sup> Moreover, usage of airtime has always shown an upward or consistent trend – so MNOs



<sup>1</sup> BSNL Personal Accident Insurance, Airtel Mobinsurance, Idea Group Term Insurance

<sup>2</sup> Ibid [3]

<sup>3</sup> Ibid [8]

<sup>4</sup> An Empirical Study on Customer Churn Behavior of Indian Prepaid Mobile Services; Rajeswari & Ravilochan; Middle East Journal of Scientific Research; 2014

<sup>5</sup> GSMA Wireless Intelligence, TRAI performance reports

<sup>6</sup> Global average ARPU is USD14.1, while average of Asia Pacific is USD9.1. Ibid [5]

<sup>7</sup> Lessons from the Indian Mobile Market: How Operators Can Sustain Margins in a Low ARPU Market; Capgemini; 2008

<sup>8</sup> How global telcos can profit from India’s wireless experience; Bain & Company

<sup>9</sup> TRAI performance Reports

<sup>10</sup> Ibid [7]

<sup>11</sup> Corresponding figures for Kenya are 77 and 4.5 billion, respectively.

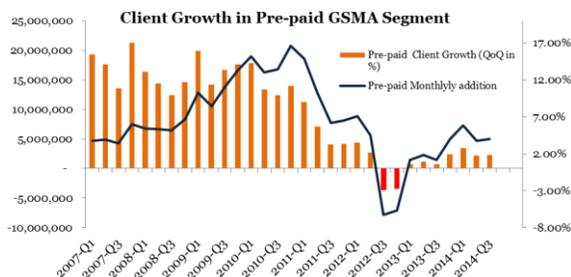
saw no need or case for major investments to augment usage.

**High churn became a norm in a growing pre-paid market of largely young customers:** Though MNOs are aware of the benefits of client retention and loyalty, due to fierce competition and a substantially young customer profile (>65% of client base),<sup>12</sup> they had to accept floating customers and churn as a market reality. They often prioritised cost management over client loyalty<sup>13</sup> - hence the absence of any major loyalty benefit schemes in Indian telecom sector. Moreover, given price sensitivity of clients and their ability produce low cost airtime, a few MNOs focussed on providing bonus airtime, instead of other value added services, like insurance, to check churn.

### Recent Trends

Although the evolution of Indian telecom industry explains the absence of loyalty insurance, industry realities have changed in recent years.

**Reduction in Client Growth Opportunity:** Mobile



customer growth has dropped from 10+% (Q-o-Q) in 2007 to less than 2% in 2014 while mobile tele-density increased from 16.3% to 73.6%.<sup>14</sup> As the market becomes increasingly saturated, client growth opportunities will cease. MNOs will now have to compete not only for each others' customers, but also for share of total usage by the same customer who now have 1.62 phones and 1.88 SIM cards on an average.<sup>15</sup> Since airtime cost does not offer a competitive edge anymore, MNOs can differentiate through value-added services like loyalty insurance.

**The Usage Gap:** Though Indian telecom market records high usage, pre-paid MoU is still approximately 1/3<sup>rd</sup> of the MoU of post-paid connections. Despite the segment differentiation between the two, a value-added service like insurance might generate higher usage by both pre-paid and post-paid subscribers. Insurance can also be used to bridge the gap between MoU of rural and urban centres.

<sup>12</sup> India Mobile landscape, TelecomWatch;2013

<sup>13</sup> Ibid [18]

<sup>14</sup> TRAI Performance Reports, MicroSave Analysis

<sup>15</sup> GSMA Intelligence

<sup>16</sup> CRISIL Press Release, February 16,2015

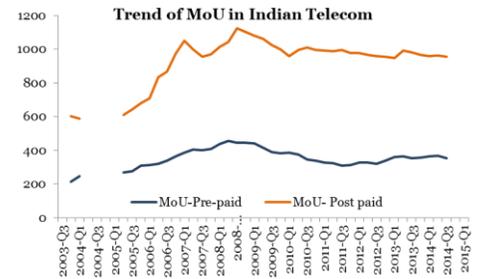
<sup>17</sup> Customer Retention – The Telco's next Blue-Eyed Boy; O.K.Jha; 2014

<sup>18</sup> TRAI Performance Report; June 2014

<sup>19</sup> MicroSave Briefing Note 160: Loyalty-based Mobile Insurance: Is Design Aligned to Business Objectives?, 2015

### Increasing Impact of Churn:

The impact of high churn and low age on network (AON) is set to increase due to increases in client acquisition cost in the saturated market. At the same time, margin per minute is set to reduce due to new spectrum auctions.<sup>16</sup> MNOs can continue to maintain profitability only if they increase the AON from current level of 7-8 months.<sup>17</sup> Insurance can create the necessary stickiness for customers and help MNOs earn more per connection.



**Rural Penetration:** Urban mobile density in India is 140.4%, compared to about 43.8% in rural India.<sup>18</sup> However, usage is high in rural areas as a customer's airtime usage is not shared between competing alternatives: other mobile connections or fixed line. Moreover, given preference of rural customers for micro pre-paid packages, margins are also considerably higher. Thus, rural market provides opportunities for MNOs, who can use loyalty insurance as an attractive differentiator.

**MNOs as Banks and Monetising Insurance:** Most MNOs in India have applied for [Payment Bank licenses](#), which will allow them to conduct banking operations. MNOs receiving these licenses can then leverage low cost distribution, a smooth payment platform (thorough mobile money) and their existing client databases to upsell products. A MNO can build trust with clients through free loyalty insurance, which can be leveraged later by its banking counterpart through cost-effective agent-less selling of [voluntary or freemium mInsurance](#) without major investment in marketing and promotion.

### Conclusion

Loyalty insurance is generally adopted by MNOs for markets that are becoming saturated and experiencing stagnant growth – for example Ghana, Nigeria, Zambia.<sup>19</sup> Though initially Indian MNOs avoided such products, in near future, these products will be beneficial for them. Yet the success of such initiatives will depend on whether product design is customised to both client behaviour and business objectives of both MNOs and insurers.