MicroSave Briefing Note 160

Loyalty-based Mobile Insurance: Is Design Aligned to Business Objectives?

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Mobile insurance (mInsurance) is defined as, "any type of microinsurance product which leverages mobile channel, regardless of the existence of mobile money platform, to improve a part of the insurance value chain".[1] Although multiple mInsurance models could (and somewhat did) emerge, the discourse in mInsurance sector is dominated by loyalty mInsurance, where an MNO pays premium to an insurer for their chosen clients in order to increase client loyalty and/or usage. These schemes reached over 10 million clients in last 2-3 years. As a result, many argue that mInsurance should follow a gradual progression curve where a client graduates from such loyalty insurance to freemium[2] and finally to a voluntary/fully paid insurance platform.[3] Though the enthusiasm is understandable, there is increasing concern that such products are dependent on the business model and marketing priorities of MNOs. For loyalty insurance to sustain, therefore, it is imperative to understand and align the product/s to strategic objectives of MNOs in different markets and countries. In this Note, we discuss the strategic importance of mInsurance in the context of enhancing business value for MNOs.

Design

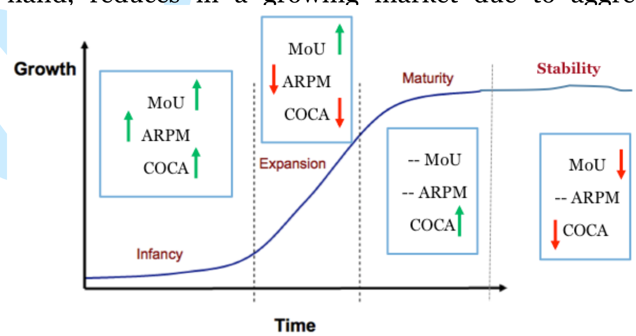
Loyalty insurance products need to be sufficient value drivers for the MNO in terms of increasing loyalty of the clients and/or revenue/outreach. Since these products aspire to alter complex client behaviour in fiercely competitive telecom markets, the design of such products need to answer the following:

- What does loyalty mean for MNOs?
- How is design aligned to institutional objective?
- Whose loyalty are we seeking?

➢ What Does Loyalty Mean for MNOs?

Performance in mobile telecom markets is governed by the dynamics of a few parameters. *Average revenue per user (ARPU)* and *churn rate* are commonly used in almost all mInsurance related discussions. ARPU, however, is the product of *minutes of usage (MOU)* and *average revenue per minute (ARPM)*. While ARPM is a function of competitive pricing, MOU is a direct indicator of airtime usage. Hence, ARPU is not much a parameter of client loyalty, as much as it is an indicator of revenue. Tracking *churn rate*, on the other hand, makes sense only if *cost of client acquisition (COCA)* overwhelms the product of ARPM and *age on network* (AON).

Airtime-linked mInsurance aims to alter one or more of these parameters in favour of the MNO. Monthly recharge of pre-paid balance, for example, is often selected as a qualifying criterion in order to increase ARPU. Trends of these parameters, however, change along the evolution of mobile telecom market. In growing competitive markets, ARPM reduces due to price pressure, while MOU growth slows down due to saturation and use of multiple SIMs by subscribers.[4]AON (and hence client loyalty), on the other hand, reduces in a growing market due to aggressive



marketing of competing MNOs. By the time market stabilises, MNOs expect to witness an increase in AON due to stickiness created through multiple services and loyalty incentives. MNOs' strategy often is a function of market evolution. In a rapidly growing market, MNOs can become too focussed on aggressive client acquisition even at the cost of ignoring obvious benefits of retention. This can increase the COCA[5] and rotational churn,[6] while reducing the ARPU. However, in maturing markets MNOs tend to prioritise client loyalty since acquiring new clients becomes more costly.[7] In a saturated market, priority of MNOs can further change to focus on revenue generation from existing customers through multiple services (e.g. data usage.) In an evolving market, therefore, airtime linked mInsurance products can remain relevant if the design is

[1] "M-Insurance: The Next Wave of Mobile Financial Services?" by Jeremy Leach
[2] mInsurance schemes where clients can get additional coverage over the loyalty insurance benefit by paying additional premium.
[3] Mobile Phones and Microinsurance; ILO 2013
[4] The Mobile Economy 2013; GSMA, 2014
[5] Since MNO would have to offer airtime bonus/additional benefits as well as incentive to distribution channels to offer lucrative packages.
[6] Rotational churn happens when customers dump their existing SIM card to take new ones from the same operator because it becomes cheaper to use the new card instead of getting the old SIM recharged.
[7] Customer Retention- The Telco's Next Blue Eyed Boy; O.K. Jha, 2011

aligned with: 1) the changing business objectives of the MNO; and 2) the natural progression of performance parameters. To assume that MNOs are always willing to invest in client loyalty may well be flawed.

➢ Is design aligned to business objectives?

As is true for any incentive scheme, airtime-linked mobile insurance products need to be dynamic to achieve the business objectives through carefully selected qualifying parameters.[8] Without variation in design, these products carry the risk of becoming redundant and unattractive to MNOs as the industry enters a different growth stage.

		Mobile Tele-density	
		High	Low
Growth of Mobile Phone Market	High	**Saturation** *(Indonesia, S.Africa)* MNOs focussed on deep pocket penetration and multiple services/connections.	**Expansion** *(Mozambique, Rwanda, Nepal)* MNOs focussed on client acquisition and market share
	Low	**Maturity** *(India, Ghana, Kenya, Tanzania, Brazil, Mexico)* Client acquisition ceased: MNOs focus on client loyalty and vintage.	**Infancy** *(Malawi, Madagascar, Djibouti)* MNOs efficiency of network

Linking design with the business objectives of MNOs at different stages of market growth

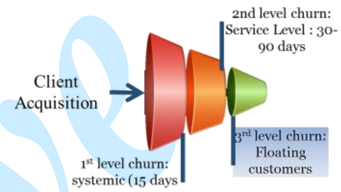
Growth Stage	Business Objective of the MNO	Parameters to be Considered for Design
Infancy	Growth/Outreach	Client activation
Expansion	Usage/ Market share	ARPU
	Market Share	Client activation
Maturity	Client vintage	AON
	Client loyalty	
Stability	Revenue	MOU
	Loyalty	AON
	Alternative revenue streams	ARPU on other products (SMS/data usage)/ARPS

Some probable design frameworks, targeting the evolving business objectives of MNOs, are discussed below.

- In the infancy or expansion phases, MNOs will be keen to achieve growth in market share through insurance (or other incentives) for client acquisition or activation – this is clearly different from a loyalty-focus.
- Since ARPM continues to reduce due to tariff pressure, ARPU linked loyalty insurance actually aim to increase usage (though MOU) and not loyalty. Such endeavours can be successful in expanding or stable markets, where MNOs can attract clients to use more of its own network against a competing network.
- Loyalty insurance (or client loyalty in general) would be attractive to MNOs only when the COCA increases and ARPU/ARPS[9] stagnate, i.e. in maturity phase. AON might prove a better qualifying parameter for such loyalty aimed insurance, where MNO can offer benefit to clients who have been in the network longer.

➢ Who's Loyalty?

Loyalty insurance is generally offered to airtime clients with an undifferentiated expectation of enhancing loyalty across all users. Churn of telecom users, however, is highly segmented across temporal and demographic patterns. Mobile telecom users go through natural or systemic churn funnel. Immediately after acquiring clients, provider initiated churn occurs due to inactivation. A second-level churn (40-45% of all churn) happens as customers unsatisfied with the network or call quality leave. Since these customers signed up primarily to use airtime, a secondary benefit of insurance is unlikely to alter the trend. Behavioural churn takes effect after approximately 90-180 days as clients leave the network for lure of marginally more attractive airtime or SIM activation schemes. Beyond 180-days, the churn rate is expected to reduce as clients with high AON are less likely to leave the network unless the cost of switching is very low.[10] It is apparent, therefore, that target clients of loyalty insurance resides in the window of the behavioural churn, where a loyalty incentive (like insurance) can act as an effective switching barrier for clients.[11] Further, usage and churn behaviour of clients differ hugely based on the demographic segment from which they are drawn. Usage behaviour and motivation to remain attached to a network differ based on age, rural-urban difference, profession and other demographic characteristics. Such differences are also apparent in case of high and low ARPU customers.[12] Unless the provider segments and targets clients carefully, they will waste resources paying premium for client segments where the impact is minimal or negligible.



Conclusion

It is noticeable that almost all the loyalty mInsurance products have similar design criterion and are offered to an undifferentiated market. In order to avoid being redundant and wasteful, providers should consider more versatile designs that respond to market evolution, as well as a segmented approach, to deliver on the business objectives of partner MNOs.

[8] Parameter based on which airtime customers qualify for free insurance
[9] Average Revenue Per Subscriber = Revenue per subscriber per month irrespective of the number of SIM the client is using
[10] As occurs, for example, with number portability schemes
[11] Customer churn analysis: Churn determinants and mediation effects of partial defection in the Korean mobile telecommunications service industry; Ahn, Han and Lee; 2006
[12] Building Customer Loyalty in the Telecom Market; Comarch White Paper, 2012