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Digital Insurance—Key to Unlocking Africa’s Life Insurance Potential?

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Much has been written about the African insurance market, both with regards to the inherent potential as well as the many obstacles that prevent the market from naturally flourishing.

The combination of one of the lowest life insurance penetration ratios, combined with an expanding population that can be categorized as young, are just two factors that provide a glimpse into the potential for the life insurance market. The current population is largely underserved from a general financial services perspective and this includes banking and insurance. Slowly increasing levels of education, increasing urbanization and a growing middle class with disposable income will accelerate the need for financial services in general which will include life insurance products and services.

The main hurdle to an expanding life insurance industry is still affordability on the demand side. This relates to insufficient poverty reduction and the high levels of unemployment that are prevalent on the continent. When food and shelter are still a primary concern, insurance purchases are not likely. A lack of financial education and awareness also plays a large role. On the supply side, poor regulation and governance, and a lack of local expertise make it difficult to easily invest in and enter various markets within Africa.

These examples of potential and obstacles are by no means exhaustive.

At this point it is worth mentioning that South Africa is an outlier as far as the rest of Africa is concerned. For example, South Africa has one of the highest life insurance penetration ratios in the world. If you exclude South Africa from Africa the penetration ratio drops to the lowest in the world. South Africa has a mature and innovative insurance industry. It is also from South Africa that much of the investment into the life insurance markets in Africa is made as local insurers look for growth outside of the established local market.

MOBILE POWER

Simpler practical issues also stifle development within the African life insurance market. In Africa this often manifests as a simple premium collection and reach issue. Given a willing buyer and seller, can the buyer purchase a life insurance contract if they don’t have a bank account? And can an insurer sell a policy if they don’t have a branch or agent near the potential customer, which is often the case given the spread of populations over rural areas?

It is estimated that half of the African population of 1.2 billion people has access to mobile services, and continues to grow. This provides a powerful tool to any industry that is struggling with issues around payment and reaching customers. Much of the technological innovation in Africa has been around mobile money and is centred around Kenya and the rest of East Africa.

Mobile money adoption in Africa has outpaced growth in the rest of the world. In 2016 the number of registered mobile money accounts surpassed half a billion across the world; 277 million of these were in sub-Saharan Africa. MTN Mobile Money and M-Pesa (M is for “mobile” and pesa is Swahili for “money”) are two of the largest providers of these services. These advancements have done much to advance financial inclusion in Africa.

In developed nations people tend to access their bank accounts through a smart phone. In mobile money markets people use the phone as a bank account. The cost of smart phones is still prohibitive to many in Africa, but basic mobile phones (feature phones) can be used for mobile money transactions. This is done using a frequently used service called unstructured supplementary service data, or USSD. This is available to all GSM mobile phones.

However, smart phone adoption in Africa is rapidly increasing as low-cost smart phones become available. This is largely through the introduction of cheaper Chinese android devices. Smartphone adoption in Africa is already over 40 percent and smart phone usage has doubled over the last four years.

Financial service providers that can harness these developments can place their brands, products and services in potential customer’s hands through mobile phones and collect premiums through mobile money technology. Education and awareness can also be addressed through this medium.

Affordability of life insurance products is still a key issue, and traditional insurance products that require stable monthly premiums are often not practical. Products any more complex than simple funeral type products are also not feasible, where more complex underwriting and claims processes might exist.

In order to solve these problems companies need to cut out as much of the distribution and servicing costs as possible from their products and services, making them cheaper and also ensuring that their offering is scalable.

GOING DIGITAL

The first digital life insurance products are emerging in markets across the world. This is where the entire value chain is collapsed into a digital platform. Underwriting, on-boarding, policy issue, servicing, premium payment and ultimately claiming are all handled on the digital platform. Much of the distribution will also happen on the platform.

A successful example of this is Zhong An in China, which has been described as the first truly digital insurer to reach scale. This company started with short-term products but has moved into health and life insurance.

For its health insurance product Zhong An utilizes an end-to-end digital process. It even encourages its policyholders to act as distributors of the product to new policyholders through the platform. The reward for introducing a sale is reductions in their own premiums.

This form of insurance distribution and servicing generally requires smart phone technology. With Africa's growing young connected population and the ever reducing cost of smart phones, it is expected that smart phones will be much more ubiquitous. Many are anticipating that this will then be the next point of inflexion for digital products and services in Africa.

It is expected that digital insurance products and services in Africa could leapfrog more developed nations in their adoption and distribution. More developed markets have insurance companies that are hampered by legacy IT systems, infrastructure, processes and culture. These companies will struggle to suddenly become a digital insurer or add digital products to their offering.

It must also be remembered that the traditional evolution of insurance products, from brokers and paper contracts to online insurance and ultimately fully digital products, will be totally bypassed in many instances in Africa. For many the first insurance offering will just be digital.

Most of these countries have established traditional life insurance business, but these target a very small subset of the respective populations, mainly high net worth individuals or the expatriate community.

In addition to this leap to digital, the growing young African population have not moved from personal desktop computers to laptops and then mobile. They will only know mobile and



as such companies looking to reach these customers should not be trying to evolve from a standard or even an internet online insurance offering. This is an entirely new market.

It is a young underserved market from a financial services perspective, and they will ultimately be serviced by companies that can produce digital products combined with mobile payment solutions.

DOES DIGITAL SOLVE ALL PROBLEMS?

By reducing the distribution and servicing costs of insurance, the affordability issue will be addressed in a more meaningful way than it has at any point in the past. By putting your brand onto a digital platform and into the hands of potential customers this will also provide reach and enable scalability. Even in the mature South African market these developments are being eagerly tested with the hope of it ultimately unlocking the mass market which is also largely underserved. The hope is that these developments can finally prove to be the key to unlocking the full micro-insurance potential.

By having a fully digital service, it also allows the incorporation of other technologies into the process. This opens the door for significant automation, the use of big data and cloud computing to name a few. These are good examples of changes that will further drive down the cost of the provision of life

insurance products. With regards to automation, there are already examples of short-term products where the technology collects the data to verify a claim whether this be a weather event or accident. In the life and health insurance spaces technology is being used to verify medicine use, hospital stays and whether or not the life insured has died, for example.

Any company with access to customers, their data and to some extent their finances has a role to play in the rollout of financial services in Africa. This is why we see telecoms being quite active by having access to customers digitally, as well as having access to non-financial data and financial data via mobile money or at least pay as you go services. The traditional insurers and banks are also active.

Any company with large volumes of data could potentially enter this space, which is where big data plays a role. Companies in Africa are already finding innovative ways of using existing data to provide and price insurance products.

With a digital product, lots of physical medical underwriting and long application forms (or any paper forms) pose issues that need to be overcome. But at the same time, an insurer needs to manage selection. A straight-through process without leaving the platform until it is signed and payment arranged (preferably within minutes) is the Holy Grail. Data is also being used to bypass this process. By using information the companies already have, they are finding ways to predict what the underwriting outcome would be or the likelihood of insured events occurring for people with similar risk profiles. This then cuts out much of the underwriting.

This also enables companies to make targeted offers. Based on what a company knows about a person, it could make an insurance offer knowing that the selection risk is acceptably low without further underwriting, or it can make an offer by just asking you to confirm a couple of points. This becomes very powerful for banks and telecom companies with large customer bases that are underserved from a life insurance perspective. This enables them to simply put easy-to-accept offers in front of their clients. It also enables companies to move beyond just funeral type products and offer both higher covers and other types of insurance, like disability or illness cover.

Going a step further, building product into existing services could evolve further and this then provides huge scale and also eliminates selection. Already life insurance products are being built into other products and services like airtime. This then is also a big threat to traditional insurers trying to do business in Africa, where their product has been allocated as a value-add to the primary products in another industry.

A digital platform also enables more flexibility with regard to the insurance products and gives the consumer more control.

In a market which is heavily affected by affordability and volatile streams of personal income, lapsing policies due to non or partial payment is not an option. A product that automatically adapts to premium payments or allows the policy holder to alter the product as they go becomes essential.

Products and services also need to be more flexible. Pay-as-you-go models for insurance products need to be adopted. This can be built into a digital platform through rules and functionality. These are the types of issues that traditional insurers with legacy infrastructure will struggle to match. Imagine trying to affect a policy change within a few minutes on a traditional life insurance policy.

Digital platforms also remove geographic borders. An insurance product that is distributed through digital platforms, is underwritten using existing data and a rule set, where the customer manages the product on the platform and claims can be verified by automating assessment procedures suddenly doesn’t need a lot of local insurance expertise where the product is physically bought.

THE FUTURE

This is what life insurance products are likely to look like and how they are likely to behave in Africa in the not-too-distant future. The way that they get to the market will also involve a lot of partnerships which is likely to be a new way of operating for many companies. These could be partnerships between large established companies with complimentary experience and data as well as partnerships with emerging FinTechs providing parts of the solutions to the digitization of financial services and products.

And then again, maybe a fully digital company, the African version of Zhong An, will suddenly emerge and accelerate the pace of change.

Digitization of life insurance products will not solve all of the problems facing the African life insurance industry. But digital products and services will open the door to solving many of them through awareness, education, availability and affordability. It will also grow the potential market through better financial inclusion. ■



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