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Mobile Phones, Insurance and a Funeral: A Closer Look at South Africa's Mobile Micro-Insurance Market

By IMTFI Fellow [Christopher Paek](#)

About halfway through my fieldwork in Cape Town, South Africa, tragedy befell Goodwill Nxusani for the second time. He had been one of my key sources and interlocutors, connecting me to local residents of his township, Khayelitsha. Earlier that year, his grandmother had passed away and he was generous enough to invite me to her funeral. Just a few months later, he received word that his father-in-law, who lived in the Eastern Cape, had also passed. As the only income-earning household in the immediate family, Goodwill's family was responsible to pay for the whole funeral.



A traditional Xhosa funeral in Khayelitsha, South Africa (Photo credit: Christopher Paek)

Funerals are sacred among the Xhosa. Whether poor or rich, families do whatever they can to ensure that their beloved kin are sent off properly in death so that their souls can join with the ancestors. Goodwill's father-in-law, the male head of household, was to be honored, as customs dictated, with a slaughtered cow. Since he died near Cape Town, transportation would also have to be arranged so that his body could be returned to the Eastern Cape, a common story for many Xhosa who had migrated to the Western Cape in search of work.

Between the transportation costs, the livestock, food, and the funeral ceremony itself, Goodwill faced a price tag of R42,040 (\$3,123). If Goodwill had spent every rand he earned, which was R2,000 (\$148) per month, it would still take him nearly 2 years to fully pay for the funeral. Fortunately, Goodwill was among the lucky few who had taken out a funeral insurance policy that covered R14,000 (\$1,040) of the cost. Still, the death of his father-in-law posed a considerable financial burden on his family. As he broke the bad news, he informed me how he and his wife had gone three days without food in order to pay the first installment on the cow.

Economists and insurance professionals see Goodwill's story, which is fairly common in communities across South Africa, as a story about financial risk. In their view, the financial toll imposed on a grieving family can be alleviated by finding ways to extend financial services into low-income spaces...no easy feat. Insurance, widely considered a

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grudge purchase, is a hard sell to even middle-upper class people. How do you convince the poor to spend what little they have on insurance?

South Africa is unique in this regard because demand for micro-insurance (insurance products designed for low-income clients) is high, driven by the cultural imperatives placed on funeral rituals. Of the nearly 62 million lives insured by micro-insurance on the African continent, South Africa alone accounts for more than half of these lives, making it one of the world's largest micro-insurance markets.

While microfinance enthusiasts might see these numbers with unbridled optimism, there is an important caveat to consider. Micro-insurance sales in South Africa are almost exclusively driven by funeral insurance policies. Other products including life, health, and asset insurance have found no success in the low-income market. Many are hopeful that exposure to high-quality funeral insurance products can serve as a sort of Trojan horse into this market, but this is yet to be seen.

As might be expected, building profitable micro-insurance markets presents a number of challenges, especially the need to achieve scale, since the sustainability of insurance operations relies heavily upon building a sizable risk-pool. Fortunately, the advancement and proliferation of technology across the developing world, particularly mobile phones and its networks, have been a game-changer for many industries including micro-insurance. Since mobile penetration is deep in South Africa (mobile phone subscriptions per capita stand at 1.47, according to the World Bank), insurance companies have partnered with mobile network operators (MNOs) to tap into this expansive distribution network. Insurance products that are sold through and with mobile operators are commonly referred to as mobile insurance, or m-insurance for short.

By overlaying their operations upon a mobile infrastructure, insurance companies have been able to generate efficiency gains across the entire micro-insurance value chain from product design, marketing and sales all the way to enrollment and claims administration. From the MNO perspective, m-insurance is an appealing product insofar as it stimulates average revenue per user (ARPU) and reduces churn, i.e. increased loyalty/retention. And for the end-client, efficiency gains translate into affordable premium rates that compare favorably to traditional micro-insurance products or even their informal sources of insurance coverage. Sensing the market opportunity, insurance companies and MNOs launched several varieties of m-insurance products including (but not limited to):

1. Loyalty Based Models- Clients receive "free" coverage paid for by the MNO if the client behaves in an incentivized way (e.g. more airtime usage, data purchases, etc.)
2. Airtime Deduction Models- Clients can make their premium payments with their airtime balance.
3. "Dumb Pipe" Models- The mobile phone is used only for data capture, enrollment, and communications functions, but not for premium collection/payout.

Type	Product	Provider(s)	Partnership Type	How it works
Paid	Family Funeral Cover		MNO	Premiums paid monthly using debit order. Mobile Money (mPesa) not yet available as of March 2016.
Loyalty	Funeral Loyalty Cover		MNO-Insurer	Funeral cover offered for free when client purchases R100 of airtime every month.
Airtime Deduction	Cover2Go*		TSP-Insurer	Airtime deducted (and converted into real currency) as premium payment.
Dumb Pipe	Funeral Cover		Retailer-Insurer	Policies sold as starter packs in Pep stores. Mobiles only used for monthly payment reminders.

A non-exhaustive typology of m-insurance products on the South African market

It would seem, then, that South Africa, with its high demand for micro-insurance, a corporate commitment to m-insurance, and high levels of mobile penetration, would be fertile ground for the wide-scale uptake of mobile-based micro-insurance. But it came as a surprise to many in the industry when the anticipated m-insurance market failed to achieve scale. What happened? And what does this mean for other financial service providers who are looking to break into the low-income market through mobile channels?

The research I conducted in Khayelitsha, a large township outside Cape Town, indicated that a major reason why this market failed to materialize had to do with trust. Even longtime micro-insurance clients who were well familiar with how insurance worked, would not trust using their mobile phones to conduct financial transactions. What drove this mistrust?

To answer this question, it's important to understand clients' experience with m-insurance within a much wider context of mistrust in which they live and operate. For township residents, in particular, this environment is typically characterized by high crime rates, lack of formal legal recourse, a lack of consumer advocacy and education, countless experiences with money/phone scams, and high unemployment. Anthropologist Erik Bähre observed how, in the midst of such a volatile environment, township residents would seek out and form "islands of trust" where they felt safe enough to keep/grow their money (i.e. informal financial mutuals).

Filtered through this perspective, it's useful to see m-insurance products as operating outside the boundaries of these islands of trust. M-insurance was instead interpreted through a lens developed and used over time to guard against fraud. For example, many respondents dismissed m-insurance because of their past experiences dealing with phone and money scams. When they come across so-called "free" insurance coverage (i.e. loyalty-based m-insurance), they are understandably skeptical.

What may have been the most unexpected finding was the extent to which even very poor clients were willing to pay a higher premium to deal with insurance sales staff face to face. When presented with an m-insurance product that had a stronger monetary value than traditional retail insurance, clients often expressed how important it was to them that their premium payments and claims were being administered in an office. An office is tangible, it can't disappear in the night; it is, for lack of a better phrase, Bähre's "island of trust."



A funeral m-insurance product.
A partnership between an insurance company, Holland
and a clothing retailer, Pep (Photo credit: Christopher Paek)

Among m-insurance developers, there is an on-going debate as to the virtues and drawbacks between "high-touch" products, which incorporate sales agents into their models and "low-touch" products, which are typically passive models that eliminate sales agents in order to lower cost. Results from this project seem to suggest that at least initially, a more high-touch approach is required to first develop trust, especially in environments where the use of mobile phones to cross-sell financial products have become synonymous with fraudulent activities.

A related example may reinforce this point. When ATMs were first introduced into South African townships, initial reports suggested that there was widespread mistrust among

residents. It took concerted time and effort—i.e. bank tellers would walk through each step with individual customers again and again—for clients to eventually trust ATMs enough to deposit their hard earned cash. Examples like this demonstrate that trust in m-insurance products can eventually be earned, but that an initial investment in time and financial resources may be required to do so.

As this research shows, efficiency, convenience, and price are necessary but not sufficient factors in building a successful m-insurance market. If the trust gap can be overcome, insurance companies may be in a good position to fully leverage the potential of mobile phones and networks to deliver financial services at a meaningful scale.

Read Christopher Paek's [Final Report](#)

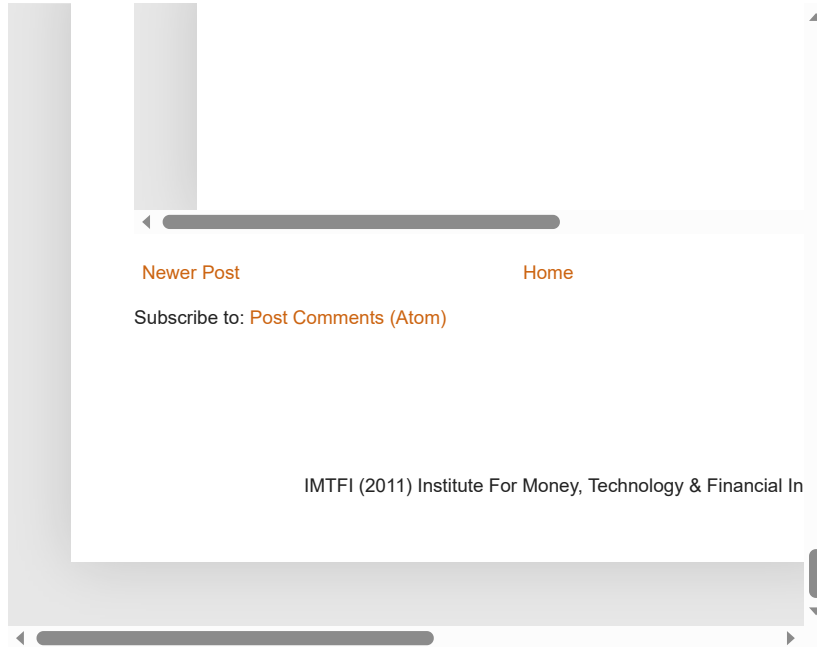
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