

# THE *power* OF ALLIANCES

Insurance companies and mobile network operators can work together to promote their respective products



## THE NUMBER OF MOBILE subscribers and mobile network operators (MNOs)

in Africa has increased over the last decade due to enhanced investment and regulation in the industry. According to a report by Informa Telecoms, Africa is on track to hit one billion mobile subscribers by the end of 2015. Mobile technology is a key catalyst towards the attainment of the Millennium Development Goals in Africa. A 2005 London Business School study found that for every additional 10 mobile phones per 100 people in a developing country, GDP rises by 0.5%.

Mobile money is perhaps a beaming example of how mobile technology can be leveraged to develop products and services that address Africa's unique needs. It is estimated that 18 million people use M-Pesa in Kenya and that half of Kenya's GDP moves through mobile money. Already, 80% of the world's mobile money transactions are happening in East Africa, driven by Kenya, the epicentre of mobile innovation.

The financial services industry in Africa has benefited from advancements in mobile money with banks and insurance companies offering it as an alternative platform for undertaking transactions. In the insurance sector, mobile money has greatly facilitated growth in microinsurance, which involves the provision of insurance services to low-income earners. Micro-insurance products are typically low-premium products with low coverage limits, which seek to prevent the reversion into poverty of low-income earners.

MNOs have revolutionised microinsurance because of the

convenient access available through their communication infrastructure. Through this infrastructure, providers of micro-insurance are able to receive premiums from customers and settle claims through mobile wallets. This significantly reduces transaction costs, which makes the product more affordable and hence accessible to low-income earners. However, it is imperative that the airtime and mobile money agents are adequately trained to understand the intricacies and exclusions of insurance products.

MNOs can collaborate with insurance companies to promote the use of their products and services through loyalty programmes. MNOs bear the insurance costs on behalf of their customers who then enjoy insurance cover if their monthly consumption of airtime exceeds a specified threshold. The insurance cover included would then increase commensurate with their consumption of airtime. The benefit of this model is that insurance cover is extended to customers who previously would have been unwilling to pay for it. This would increase the popularity of insurance products among the public once they appreciate the value they get from it which would lead to an increase in the uptake of insurance products.

Lack of readily available information related to various risks (e.g. mortality) leads to overpricing of premiums in order to safeguard insurance providers' liquidity and profitability. This leads to an exclusion of low-income earners contributing to low insurance penetration in Africa. Collaborations between MNOs



and insurance providers will result in the recording of transactional data, which would provide insurance practitioners with reliable and available data that can be used to design and price new products, especially those targeted at low-income earners. The benefits of such collaborations only improve over time with increased uptake of insurance products hence opening up a bigger pool of data.

Insurance companies may also ride on the trusted brands of established MNOs to launch various insurance products. Scepticism among the public about the insurance company's willingness and ability to settle claims has been a major deterrent to insurance uptake in Africa. However, established MNOs are perceived to have a trusted brand by the public that insurance companies can latch onto when introducing new products.

Alliances between MNOs and insurance companies can be a powerful tool in increasing insurance penetration in Africa.

**Ciku Mugambi**

Senior Financial Analyst in Deal Advisory, KPMG Kenya  
[wmugambi@kpmg.co.ke](mailto:wmugambi@kpmg.co.ke)

**For more information:**

[www.kpmg.com/estafrica](http://www.kpmg.com/estafrica)