



The Mobile Phone Insurance Market: Is Change on the Horizon?

How Mobile Phone Insurance Works

Insurance options vary and may differ in terms, conditions and the extent of services covered by premiums. However, the basic concept is that customers pay a monthly premium to cover their devices from accidental damage, loss or theft.

All insurance providers must also comply with the Financial Conduct Authority (FCA), which regulates schemes to ensure compliance and fairness in the execution of service to customers.

Some Home Contents insurance policies cover mobile phones, but they typically require higher excess payments than dedicated mobile phone insurance (insurance companies deem them a poor risk). In the UK, some bank accounts also offer mobile phone insurance as part of a premium banking package.

When a claim is filed regarding a device repair, depending on the insurer, the device is collected and returned to a service centre to be repaired, or it's swapped for a reconditioned or new unit.

In an effort to control costs of repairs and replacements:

- Schemes offering a replacement device are less common and tend to be available only at a premium rate.
- The more commonly offered insurance service is a repair to the customer's device.
- Devices that cannot be repaired or that have been lost or stolen are commonly replaced with refurbished devices as opposed to new ones.
- Some schemes have had to increase the excess on policies due to the cost of repairs and replacements.
- The number of claims that can be made in a given period may be restricted.

Cost Savings: Insurance Claims

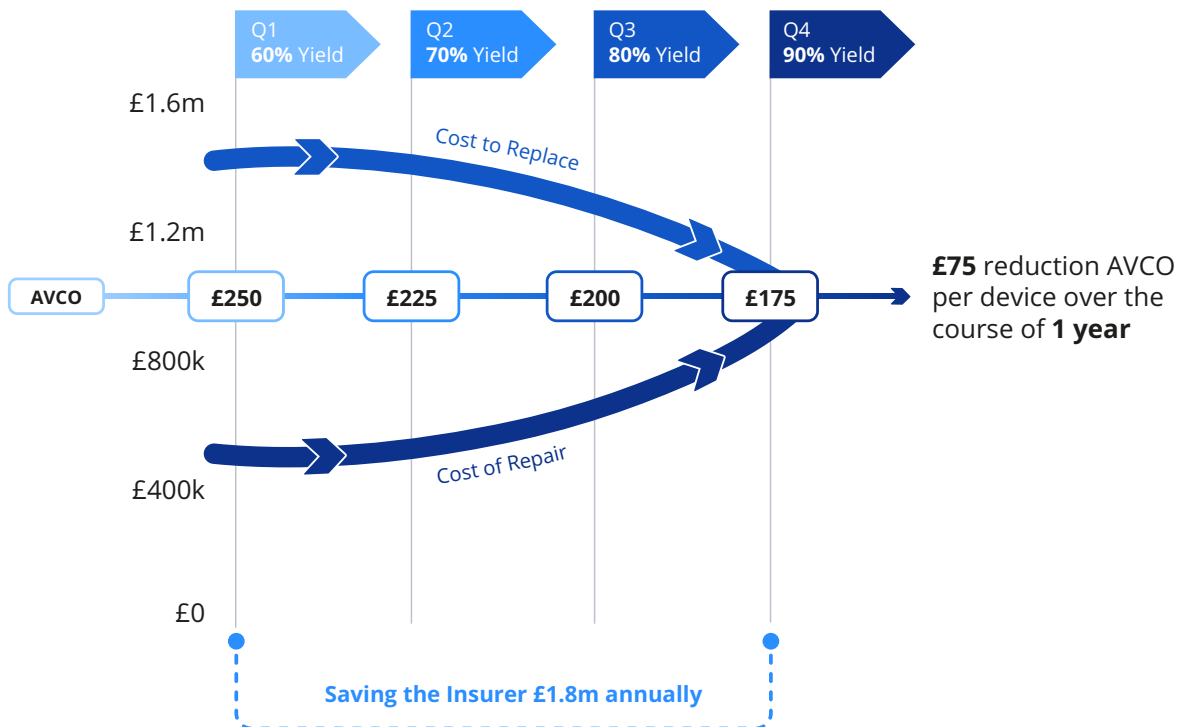
Insurance claims used to be handled manually, but this is one area where providers are able to reduce the cost of service without compromising customer satisfaction. By shifting to an online claims process, customers can file claims 24/7 and call centres are only needed to handle claims that raise concerns around fraud or ones that cannot be handled online. Some companies even offer app-based claims management where customers can log into an app and file a claim with the help of a guided workflow or the assistance of a chatbot.

Processing claims online can be up to 30 percent cheaper than managing claims exclusively via a call centre. As the use of artificial intelligence continues, claims management will become even more efficient and instances of insurance fraud will be reduced. In the future, it's predicted that up to 90 percent of claims will be handled via online processes utilising chatbots.

Cost Savings: Repair vs. Replace

Repairs are generally cheaper than full device replacements, so it follows that a high repair yield — the number of devices successfully repaired — is commercially beneficial to an insurance scheme because it means issuing fewer replacements and saving more money.

Assumptions	
	60% repair yield in Q1
6,000 Units repaired per quarter	70% repair yield in Q2
£150 Cost of repairing one per unit	80% repair yield in Q3
£400 Cost of replacing one unit	90% repair yield in Q4



Given the assumptions, achieving a 60 percent repair yield in Q1 costs an insurer £1.5m and results in an AVCO of £250. By contrast, achieving a 90 percent repair yield in Q4 costs an insurer £1.05m, thus decreasing the AVCO to £175. The number of devices processed in both scenarios remains the same.

This is a theoretical example based on general repair service costs. Regardless of volume, an AVCO reduction of £75 per unit is significant. Following this example, it would save the insurer £1.8m annually!

So how do you achieve high yield repairs? Enter a supply chain expert / repair service provider. Their understanding of the industry, knowledge of cost variables, and technical expertise will help you achieve high yield repairs and can be instrumental in designing a sustainable and profitable insurance program.

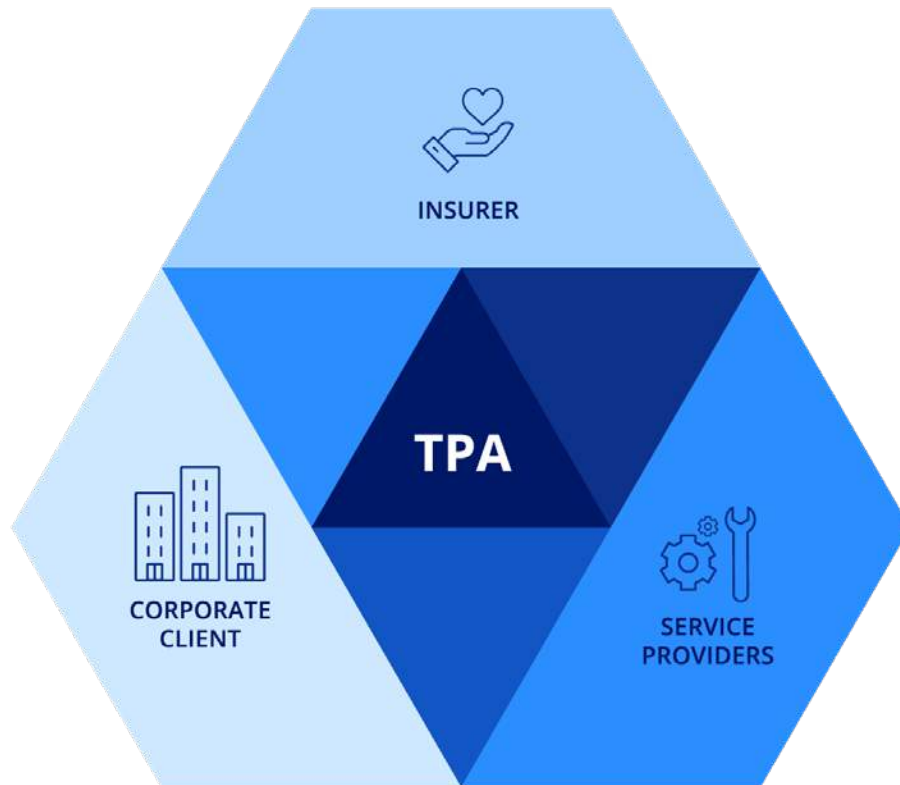
Typically, a repair service provider that centralizes their operation, which offers the following benefits:

- The provider is likely to have technical repair capabilities that accommodate multiple manufacturers.
- The provider holds OEM and ISO accreditations, ensuring high-quality and consistent repairs.
- The provider stocks many parts, increasing the likelihood of a fast repair.
- The provider serves multiple customers, which translates to shared overhead and administrative costs so insurers pay less.
- The provider can manage peaks and troughs to ensure there is no impact to service levels.

With complex developments like 5G, foldable devices, better cameras and other technological enhancements on the horizon, the cost of repairs and replacements is sure to increase, placing even more importance on a supply chain partner that can produce these high yield repairs.

Opportunity for Change

To understand how insurance schemes may change, first let's review existing variables.



Today, there are four parties within a mobile phone insurance scheme:

1. **Scheme Owner** - Markets and sells insurance to customers, collects premiums
2. **Insurer** - Underwrites scheme based on risk evaluation of all parameters
3. **TPA** - Manages claims process directly with the customer, including excess payments; takes responsibility for the selection and management of service providers
4. **Service Provider** - Receives repairs, usually at a centralized location

Insurance companies must also comply with the Financial Conduct Authority (FCA), which regulates schemes to ensure compliance and fairness in the execution of the service to customers.

Here is an assessment of opportunity value within each of the above variables:

1. Scheme Owners

Current state:

Scheme owners must find a niche in a marketplace where it is very difficult to offer something different whilst remaining competitive; already there are countless offerings.

Opportunity:

There is limited capacity for change in this area, but the increase in customers buying SIM-only deals could create some opportunity for new offers. Scheme owners could look to offer customers insurance based on their existing handset, when they purchase a SIM-only deal.

2. Insurer

Current state:

Heavily regulated by the FCA.

Opportunity:

There is little room for change in this area.

3. TPA

Current state:

Online and app-based claims processes are increasing the number of claims managed and reducing the need for contact centres.

Opportunity:

The TPA is not under FCA regulation and to that end, online and app-based services can be rolled out without barriers. This area offers a strong opportunity for expansion and further efficiency.

4. Service Provider

Current state:

Providers are under pressure to achieve high repair yields. They can also offer replacement devices at an agreed upon cost, quality and timeframe. Partnering with the right service providers can positively impact repair and replacement costs for insurers and reduce overhead costs within the TPA operation.

Opportunity:

The role of the provider will become more valuable as the cost and complexity of repairs increases.

Summary

In a mature mobile phone insurance marketplace, efficiencies rather than radical changes are more likely to be observed.

While insurance claims move toward cost-effective app-based processing, scheme owners prioritise repairs over replacements. Repair partners that can maximise repair yields across all device manufacturers will minimise the cost to the scheme owners, delivering profitability and long term sustainability.

It follows that device owners are increasingly turning to independent, on-demand street repair shops that sell convenience (often repairing a device at the owner's home or office) instead of relying on insured repairs. This service, whilst convenient, does not offer the insurer the control, quality and price point needed to commercially sustain an insurance program.

A centralised, multi-OEM accredited repair centre will remain the most cost-effective solution to insurers, offering the lowest AVCO claim whilst delivering a consistent customer experience that is aligned to FCA requirements and industry quality standards.

Finally, the ability to control the process from one central location with a single partner cannot be underestimated. These elements enable much more efficient changes to any aspect of the process and allow continuous improvement projects to be administered quickly, to the benefit of end customers and scheme owners alike.

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Ron Harckham
UK Sales & Account Director
Ingram Micro Commerce & Lifecycle Services

About the author:

Ron is from a mechanical engineering background and has held various management positions, including in operations, contact centre and account management, and business development. He has also worked on process implementation and training, and was part of a team that successfully relocated complex repair processes for a major hard drive manufacturer from the UK to Malaysia.

For the past 20 years, Ron has been delivering innovative logistics and after-sales services to retailers, etailers, networks, and insurance companies in an ever-evolving marketplace.

Sources: Business Wire <https://bwnews.pr/2lwogyw>