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## Mobile Handset Protection – A Win-Win for Carriers and Consumers

A Frost & Sullivan  
Market Insight

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## INTRODUCTION

This Frost & Sullivan insight presents an overview of the mobile handset protection<sup>1</sup> market in the United States. This insight analyzes the impact of device incidents<sup>2</sup> on mobile operators, and discusses the importance (and benefits) of handset protection for both operators and consumers. The various types of handset protection options and key drivers for adoption are also outlined in this insight.

## HANDSET PROTECTION MARKET IN THE UNITED STATES

Adoption of smartphones and connected devices continues to increase at a rapid pace in the United States. Frost & Sullivan expects smartphone users to increase from approximately 120 million in 2011 to more than 265 million by 2017 in the United States. Advancements in network and device technologies, coupled with the proliferation of sophisticated mobile applications, continue to aggressively drive data consumption on mobile devices. Additionally, the rapidly increasing trend of enterprise mobility and bring your own device (BYOD) has allowed smartphone users to leverage their devices for a range of business activities. As a result, Frost & Sullivan research indicates the average smartphone user in the United States now consumes nearly 2 GB of cellular data every month and spends upward of 120 minutes on his or her mobile phone every day (compared to an average of 50 MB/month in the early and mid-2000s.)

Smartphones are an integral part of consumers' daily lives. Any interruption in service usage is simply unacceptable in today's connected world. The more consumers do on mobile phones, the less they can afford to be without them. While accidents can—and will—happen, handset protection programs offer a convenient option to reduce service disruption that may occur due to lost, stolen, damaged<sup>3</sup>, or malfunctioning<sup>4</sup> devices. While handset protection programs cannot “prevent” a device incident, they can certainly ensure that consumers are able to get back to using their phones quickly and in a pain-free manner. For example, a handset insurance program can provide a replacement device to consumers that have lost their mobile phones within 24 hours. This is a significant benefit for consumers with handset protection who don't have to purchase a replacement device that could cost anywhere from \$400 to as much as \$850 if the customer is not eligible for the subsidized price offered at upgrade.

<sup>1</sup> Handset protection programs (such as device insurance) are premium services that allow consumers to minimize or eliminate the impact of device incidents. For example, a handset protection program can provide a replacement device to consumers that have lost their mobile phones within 24 hours.

<sup>2</sup> A device incident refers to theft, loss, damage, or malfunction of a mobile phone. Device incidents can limit or restrict the user's ability to use voice and data services on his or her mobile phone.

<sup>3</sup> Damage includes physical damage (such as cracked screens or broken keypads) and liquid damage.

<sup>4</sup> Malfunction is mostly software related (for example, when a phone's operating system stops responding). It may also include failure of a hardware component (such as a phone's speaker). A malfunction could be caused by external factors (such as excessive humidity, in which case it would be classified as a liquid damage).

The handset protection market in the United States has changed significantly in the past 10 to 12 years. Initially positioned as a value-added service by mobile operators in the early 1990s, handset protection services have evolved and emerged as integral tools for reducing customer churn. It is no longer just about device replacement. In fact, certain innovators in handset protection have expanded their service offerings to offer a more comprehensive mobile protection plan that includes data backup and mobile security solutions to ensure the full continuation of mobile subscribers' digital lives for a variety of different disruption scenarios.

In addition to mobile operator-branded solutions and OEM-provided products, the independent (or direct-to-consumer) mobile handset protection market is a significant part of the competitive environment. The success of independent providers relies upon their ability to establish strategic relationships with various channels (such as retailers and big box outlets) as well as enable proper marketing and communication with customers and prospects.

Exhibit 1 and Exhibit 2 show the estimated penetration of handset protection plans in the United States from 2009 to 2017.

Exhibit 1 and Exhibit 2 represent the penetration of handset protection plans across the entire U.S. mobile subscriber base for 2009 to 2017. It is assumed that M2M endpoints may not have any device protection plans, though, in reality, there are certain manufacturer warranties and other protection and maintenance services included for M2M, as well. The penetration of handset protection plans for prepaid devices is also expected to increase in the forecasted period.

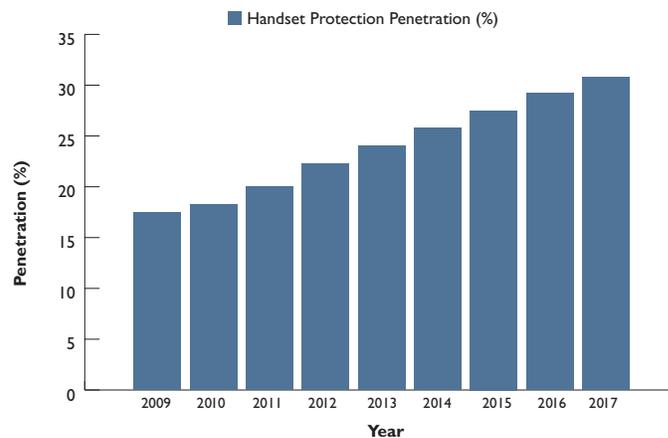
**Exhibit 1: Mobile Handset Protection Market: Penetration of Handset Protection Plans, U.S., 2009-2017**

Year	Penetration (%)
2009	17.5
2010	18.3
2011	20.0
2012	22.3
2013	24.0
2014	25.8
2015	27.5
2016	29.2
2017	30.8

*Note: All figures are rounded; the base year is 2012.*

*Source: Frost & Sullivan analysis*

## Exhibit 2: Mobile Handset Protection Market: Estimated Penetration of Handset Protection Plans, U.S., 2009-2017



Note: All figures are rounded; the base year is 2012

Source: Frost & Sullivan analysis

### KEY DRIVERS FOR HANDSET PROTECTION

Increased consumer awareness about the need, importance, and value of handset protection for higher-priced mobile devices is a key driver for mobile handset protection services in the United States. Consumers realize that it is better to purchase handset protection for a small upfront or monthly cost to ensure service continuation, rather than having to possibly spend hundreds of dollars to replace a lost/stolen/damaged device or to break a contract and pay the early termination fee. Other drivers of handset protection include:

- Strong support of device retail channels, including mobile operators, big box retailers, and national retailers. This is also driven by the proven effectiveness of handset protection plans in increasing customer satisfaction, reducing churn, reducing customer care costs, and ensuring higher customer lifetime revenues.
- Strong and effective marketing and customer support experience—leading insurance providers consistently deliver excellent handset repair and replacement service to consumers (e.g., next-day replacement, like-for-like replacement), which helps establish the credibility and utility of handset protection plans.
- Consumer behavior and device form factor—a significant percentage of mobile users in North America spend less than four hours away from their mobile phones daily. This increases the likelihood of incidents occurring to these devices. For example, consumers use their mobile phones at the pool, at the beach, and even in the bathroom. This leads to increased instances of liquid damage to smartphones (as compared to feature phones). Similarly, large screen size/dual screens make smartphones particularly prone to screen damage. In addition, over the past two years, there has been a surge in device theft for many high-end iconic devices, which drives the need for coverage.

## TYPES OF HANDSET PROTECTION OPTIONS AVAILABLE TO CONSUMERS

The following are the main categories of handset protection options available to consumers in the United States:

- Mobile operator-branded - for example, AT&T Mobile Protection Pack and Verizon Wireless Total Mobile Protection (powered by Asurion, LLC)
- Device OEM-provided - for example, AppleCare/AppleCare+ for Apple Inc. products
- Direct-to-consumer services - handset protection services offered by industry participants, such as SquareTrade, Inc. and Ensquared
- Other channel-branded or channel-supported offerings - retailers, such as Best Buy and Walmart, promote insurance for devices sold by their stores

Exhibit 3 compares the different handset protection options in the United States in 2013.

**Exhibit 3: Mobile Handset Protection Market: Comparison of Different Handset Protection Options, U.S., 2013**

	<b>Carrier Handset Protection</b>	<b>OEM Protection</b>	<b>Other Direct to Consumer</b>
<b>Brand Experience</b>	<ul style="list-style-type: none"> <li>• Carrier branded</li> <li>• Carrier-controlled experience</li> </ul>	<ul style="list-style-type: none"> <li>• OEM branded</li> <li>• OEM-controlled experience</li> </ul>	<ul style="list-style-type: none"> <li>• Third-party branded</li> </ul>
<b>Channel Strategy</b>	<ul style="list-style-type: none"> <li>• All carrier channels</li> <li>• Dedicated sales and marketing capabilities</li> <li>• Primary offer to customers</li> </ul>	<ul style="list-style-type: none"> <li>• OEM channels</li> <li>• National retail</li> </ul>	<ul style="list-style-type: none"> <li>• Web and dealers</li> <li>• Other retail channels</li> </ul>
<b>Offerings</b>	<ul style="list-style-type: none"> <li>• Loss/theft protection</li> <li>• Damage protection (including liquid damage)</li> <li>• Extended warranty</li> <li>• Digital protection</li> <li>• Technical support</li> </ul>	<ul style="list-style-type: none"> <li>• Accidental damage from handling</li> <li>• Extended warranty</li> <li>• Some digital protection</li> <li>• Technical support</li> </ul>	<ul style="list-style-type: none"> <li>• Accidental damage from handling</li> <li>• Device malfunction</li> <li>• 2-3 year coverage</li> <li>• Evaluating digital protection</li> </ul>
<b>Pricing Model</b>	<ul style="list-style-type: none"> <li>• Monthly fee</li> <li>• Billed by carrier</li> </ul>	<ul style="list-style-type: none"> <li>• Preference for one-time fee</li> <li>• Billed by OEM</li> </ul>	<ul style="list-style-type: none"> <li>• Preference for one-time fee</li> <li>• Billed online</li> </ul>

Source: Frost & Sullivan analysis

## BENEFITS AND UTILITY OF HANDSET PROTECTION PLANS

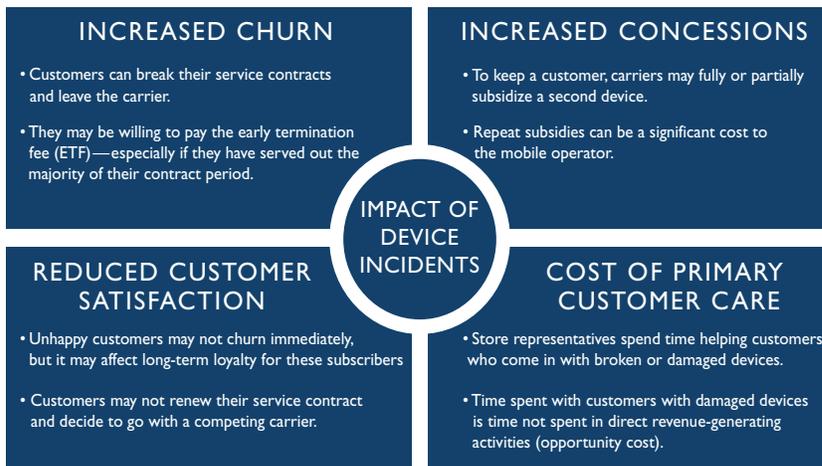
Frost & Sullivan's research indicates that loss, theft, and damage represent approximately 85 percent of smartphone handset insurance claims in the United States. Claims for device malfunction represent only an estimated 15 percent of insurance claims for smartphones. The ability (and willingness) of device OEMs to incorporate feedback from customers and partners is an important reason for the improved software performance of the new, iconic smartphones. However, loss, theft, and device damage are important perils that continue to increase in the United States. By providing quick handset replacement for devices that are out of action due to all these different types of device incidents, handset insurance services allow consumers to get back to using their phones quickly and in a pain-free manner. Thus, handset insurance can reduce the impact of device incidents for consumers.

Consumers in the United States inherently expect their service provider to assist with damaged, lost, stolen or malfunctioning devices. Additionally, as smartphone adoption accelerates, consumers are increasingly looking to their service providers to provide data protection (including restoration of their personal or business data in case of a device incident) and technical support. Thus, Frost & Sullivan anticipates integrated solutions that deliver comprehensive mobile protection will emerge as important value-added services for mobile users. Overall, handset protection plans can help address the following possible issues for mobile operators:

- Possible increase in churn. Customers, especially those who have served out the majority of their service contracts, could decide to churn in the event of an operator's inability or unwillingness to subsidize the cost of a replacement device.
- Customer care costs. As mentioned earlier, mobile subscribers tend to reach out to their service providers if their devices are broken or damaged (or even lost). The store personnel and customer care executives spend significant time with customers who walk into retail outlets with broken or damaged devices. However, time spent with these customers is time not spent in direct revenue-generating activities, and this misuse of potentially productive time clearly leads to various opportunity costs.
- Possible increase in customer acquisition and retention costs. This can also be considered a cost of concessions, as the mobile operator may decide to fully or partially subsidize the cost of a replacement device for certain high-value customers.
- Long-term effects of reduced customer satisfaction. Unhappy customers may not churn immediately, but their dissatisfaction may decrease long-term loyalty for these subscribers. There could be some customers who are not happy with the extent of operator support for issues with damaged, lost/stolen, or malfunctioning devices, and they may decide to not renew their contracts at the end of the current contract period.

*The cost of addressing device issues for uninsured customers is several times higher than the cost of helping insured customers.*

**Exhibit 4 summarizes the impact of mobile device incidents on mobile operators in the United States in 2013.**



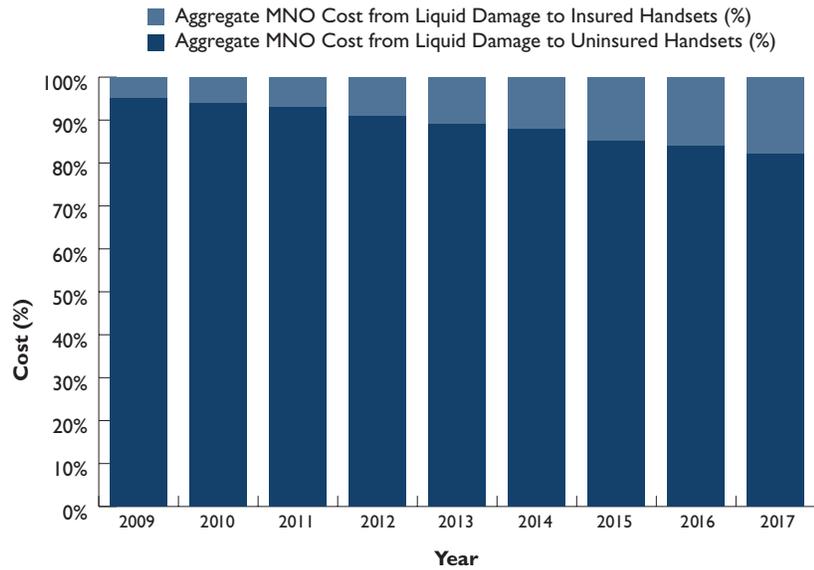
Source: Frost & Sullivan analysis

Mobile subscribers with handset protection (especially handset insurance) typically receive replacement devices (similar to the previous model) within 24 to 48 hours of filing claims with their insurance providers. These replacement devices can also carry an additional warranty. For example, replacement devices offered by industry leaders carry a 12-month warranty. Mobile operators do not have to spend a significant amount of time dealing with customers that have handset insurance; they can simply direct them to call the insurance provider to file a claim. An expeditious device replacement service also makes what could be a bad experience for consumers into a better experience, which generates positive consumer sentiment and goodwill toward the carrier. Additionally, mobile operators may not have to incur any concession or additional handset subsidy costs. Thus, there are several benefits of handset protection for consumers and for mobile operators.

Frost & Sullivan’s analysis indicates that for mobile operators, the cost of addressing device issues for uninsured customers is several times higher than the cost of helping insured customers. Mobile operators still have to provide a minimal level of assistance to insured customers, and as the base of customers with handset protection increases, the total/aggregate cost to the mobile operator could increase. However, when comparing costs on a per subscriber basis, the average mobile operator cost per subscriber (when measured for customer churn, concessions, customer care, and customer dissatisfaction) is several times higher for uninsured customers than for insured customers. It is clear that it is in the best interest of mobile operators to promote adoption of handset insurance in their customer base. In addition to the tangible financial benefits, customers with handset insurance have demonstrated higher customer satisfaction levels and, thus, are more loyal, which leads to a greater lifetime value of a customer.

Exhibit 5 shows the contribution of cost of liquid damage to insured and uninsured handsets for a sample tier I mobile operator in the United States from 2009 to 2017.

**Exhibit 5: Mobile Handset Protection Market: Contribution of Cost of Liquid Damage to Insured and Uninsured Handsets for a Sample Tier I Mobile Operator, U.S., 2009-2017**



Note: All figures are rounded; the base year is 2012

Source: Frost & Sullivan analysis

Exhibit 5 breaks down the total cost of liquid damage (for a sample tier I mobile operator) into cost of liquid damage to insured handsets and cost of liquid damage to uninsured handsets. As seen in Exhibit 5, the operator could incur significantly higher costs from liquid damage to uninsured mobile handsets.

It is important to note that Exhibit 5 presents an analysis for liquid damage only. The total impact (or cost) of all main categories of device incidents—including loss, theft, damage, and malfunction—for mobile operators will be significantly higher than what is depicted in Exhibit 5.

## Frost & Sullivan The Last Word

- Smartphones are an integral part of consumers' daily lives and any interruption in service usage is quite simply unacceptable in today's connected world. Consumers in the United States inherently expect their service provider to assist when an incident such as damage, loss, theft or malfunction occurs with their devices. It is critical for carriers and market participants to educate mobile phone users on the benefits of handset protection programs, and how a relatively small monthly payment can deliver complete peace of mind and convenience at a later stage.
- Churn reduction, enhanced customer satisfaction, and lower cost of customer care and concessions are critical for mobile operators in the ultra-competitive mobile communications business in the United States. The cost of addressing device issues for uninsured customers is several times higher than the cost of helping insured customers. Frost & Sullivan believes a proven way for mobile operators to advance these objectives is by aggressively offering (and promoting) handset protection programs to their customers. Mobile operators are encouraged to conduct a detailed analysis of the various handset protection specialists in order to select the right partner(s) for their device protection programs.
- The majority of insurance claims are likely to be related to: 1) device theft or loss, and 2) physical and/or liquid damage. The industry is closely evaluating various options to help make mobile devices more durable with technologies such as water resistance and stronger glass. However, while trying to reduce damaged phones, these innovations still do not address loss, theft, and malfunction. Frost & Sullivan also believes that eventually consumers may have to bear some of the cost to enhance durability on their smartphones.
- Adoption of handset protection plans is likely to continue to increase in the United States. Handset protection programs drive significant value to carriers and consumers, which is why mobile operators should promote handset protection programs within the channels they control. Strong support of tier I mobile operators and attractive offerings from direct-to-consumer providers are the two main reasons for the expected continued traction for handset protection plans.
- Additionally, as smartphone adoption accelerates, consumers are increasingly looking to their service providers to provide data protection (including restoration of their personal or business data in case of a device incident) and technical support. Thus, Frost & Sullivan anticipates integrated solutions that deliver comprehensive mobile protection will emerge as important value-added services for mobile users.

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