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Access to Insurance Initiative

A global programme for sound regulatory and supervisory frameworks

IAIS-A2ii Consultation Call: 21 January 2016

"Regulatory Incentives for Insurance Market Development"

- Development of Two Case Studies
on Proportionality in Practice -

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A role of the Supervisor

The IAIS “Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets” notes that regulators and supervisors should be:

- Developing the insurance markets
- Creating incentives to expand insurance throughout the markets
- Applying the proportionality principle





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Proportional Regulation

Supervisory requirements and actions that are in accordance with the nature, scale and complexity of individual insurance business.

This is particularly appropriate for microinsurance.





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Project Background – why do this?

- Supervisors struggle to apply ICPs in a proportionate manner
- Proportionality is key for the effective application of regulation for MI





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Identifying the key issues: start with insurers

Proportional regulation
should encourage inclusive
insurance by:

↓ cost of doing business

↓ barriers to entry

What are the set of
regulatory issues that are
upper-most in the minds of
providers when they decide
whether or not to respond
to a proportional regulation
(i.e. extend products to the
target low-income market)?





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Survey methodology

Survey tool

- Ranking of top 5 proportional regulation determinants to enter/stay in the inclusive insurance market
- Ranking of top 5 market factors to enter/stay in inclusive insurance market
- Comments





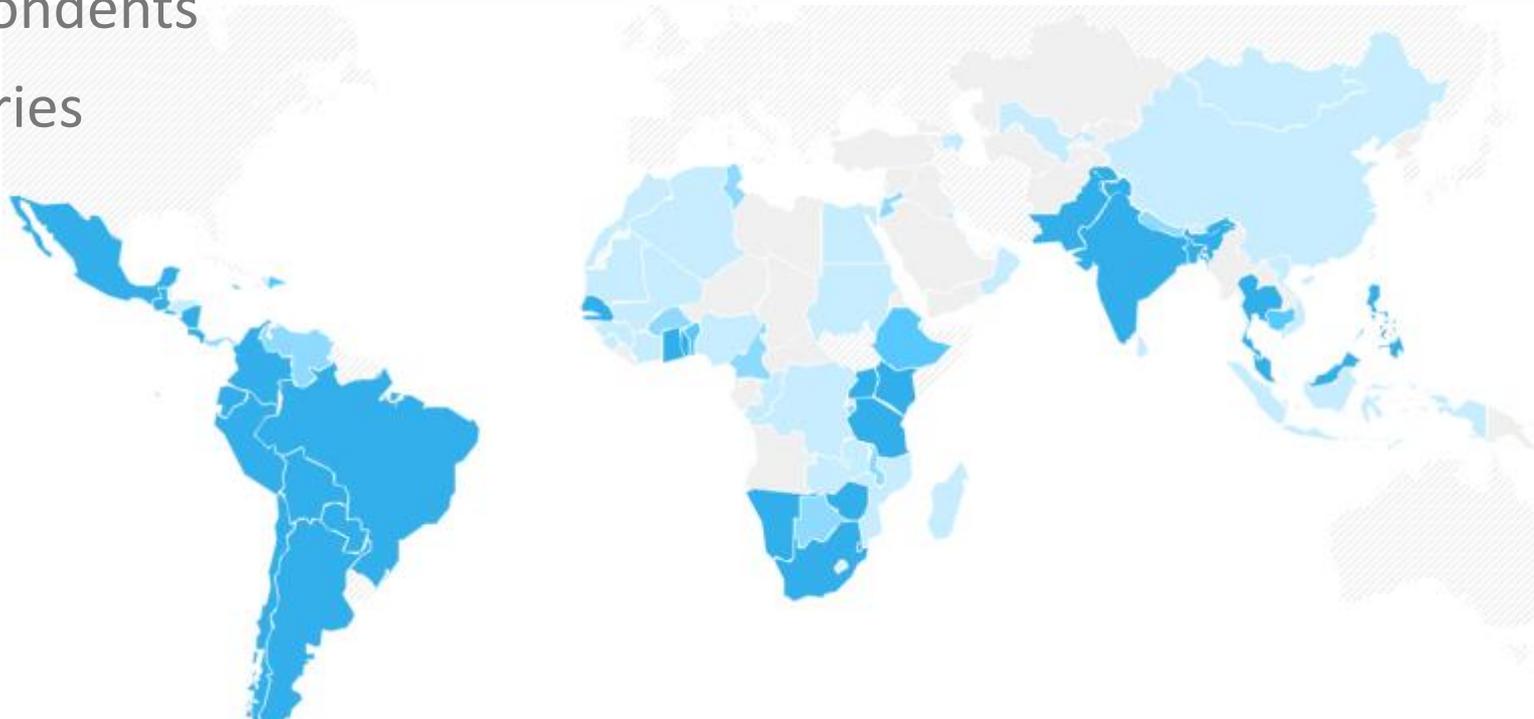
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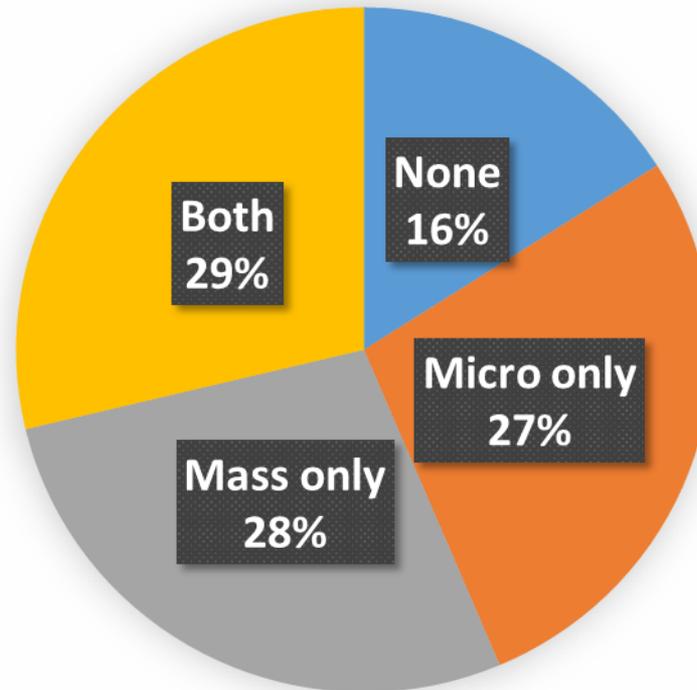
Survey methodology

Respondents

- Reached out to insurers in Africa, Asia, and LAC
- 101 respondents
- 46 countries



Respondents offering MI or Mass market insurance





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Question 1 response options

- A. Reducing disclosure content requirements
- B. Flexibility in the means of disclosure
- C. Allowing market sensitive language
- D. Allowing unregulated messaging - no approval of script required
- E. Allowance of fully electronic policies
- F. Waiver of requirement for original signatures
- G. Allowed use of any means of payment
- H. Flexibility in type premium receipts, including electronic
- I. Allowing cover to commence when agent / aggregator receives the premium rather than insurer
- J. Flexibility in the required claims documents
- K. Flexibility in the form of settlement
- L. Flexibility in claims payment duration
- M. Available mechanism for complaints
- N. On-line disputes resolution mechanism
- O. Flexibility of agent training and licensing requirements
- P. Flexibility in controls over distribution channels
- Q. Flexibility in choice of insurer for an insured
- R. Broad flexibility of possible distribution channels
- S. Flexibility on the level of commissions paid
- T. Flexible supervision of agents
- U. Flexibility of controls
- V. Flexibility with exclusions and limitations
- W. Flexibility in the product pricing review by supervisor
- X. Flexibility in bundled covers (i.e. life and general insurance)
- Y. Flexibility in supervisory product approval
- Z. Flexibility in population underwriting
- AA. Flexibility of training requirements for insurer staff
- BB. Open to provision of free, mandatory and voluntary products
- CC. Flexibility in reporting requirements
- DD. Flexibility in the structure of internal and external audits
- EE. Flexibility in the on-site and off-site supervisory review
- FF. Flexibility in minimum capital and solvency
- GG. Flexibility of KYC/AML requirements
- HH. Flexibility in the actuarial approach
- II. Proportional fines and penalties
- JJ. Flexibility in controls over outsourced activities
- KK. Availability of a path to formality for informal insurers
- LL. Availability of specific regulations for microinsurance
- MM. Insurance Commission coordination with other regulatory bodies
- NN. Availability of specific regulations for mass insurance
- OO. Other





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Results: Question 1

Proportional Regulation: What are the **top 5 determinants of entry** to inclusive insurance ranking from 1 (most important) to 5.

1. Reducing disclosure content requirements
2. Allowing market sensitive language
3. Allowance of fully electronic policies
4. Availability of specific regulations for microinsurance
5. Allowed use of any means of payment





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“It is extremely expensive, relative to the total premium, to make all the same disclosures and meet the same fit and proper requirements on simple products.”

– Life insurer, South Africa





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“Allowance of electronic policies: In today's world just about everything is more convenient and accessible due to advances in technology, use of mobile phones and other e gadgets to issues policies will not only be convenient to clients but a cost efficient to the insurer.”

– Life insurer, Ghana





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“The common denominator between all the different segments of the population is mobile phone use. I think it is the best form of communication and distribution in mass and complies with the purpose of inclusion. But the use of this technology is limited to meet regulatory controls for the designation of beneficiaries and adoption of an electronic settlement attesting the payment of claims . The selected points facilitate the operation..”

– Composite insurer, Mexico





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“Simple policy documents supported by simple language will be more appealing to the masses as they will understand what insurance is and what they are insured for. ..”

– General Insurer, Malawi





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“The lack of a specific MI regulation impacts the manner in which products are designed and sold within the market. A constraint for established product providers. If smaller companies are allowed to provide products to the market and regulation provides flexibility, a lot can be achieved.”

– General Insurer, South Africa/
multiple countries





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Question 2 response options

- A.** Availability of distribution channels
- B.** Availability of client / market information
- C.** Internal technical expertise / capacity
- D.** Availability of supporting institutions, such as associations
- E.** Existence of proportional regulation
- F.** Knowledge of low-income clients regarding insurance
- G.** Profit potential
- H.** Availability of appropriate and efficient IT systems
- I.** Expansion of technology for insurance
- J.** Flexibility in taxation for inclusive insurance
- K.** Availability of potential client/market information
- L.** Availability of market education programs
- M.** Clarity of insurance regulatory plans
- N.** Opening sales to specific markets to enhance potential for scale
- O.** Other





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Results: Question 2

What are the **top 5 market factors that influence your decision to enter or stay** in the inclusive insurance business, ranking from 1 (most influential) to 5.

1. Availability of distribution channels
2. Availability of client / market information
3. Internal technical expertise / capacity
4. Profit potential
5. Availability of market education programs





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“The clearer the environment and technological feasibility of channel development and internal experience in this type of inclusive insurance , it is clear that the result is attractive to the growth of the company , the market and insured , balancing business profitable margins within just society.”

– Insurer, Colombia





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“Investment in IT is vital to the development of this segment. Likewise further information on the markets.”

– Composite Insurer, Dominican Republic





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“Insurance Companies are largely devoid of the expertise and capacity required to design and provide an insurance product to the low income community. This is the obvious stumbling block that hindered many insurance companies from venturing into the micro-insurance products in this country.”

– Composite Insurer, Ethiopia





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“It must make business sense to enter or stay in this market for our shareholders. IT systems also are critical and need to be flexible so changes can be made quickly.”

– Life Insurer, Namibia





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What does this mean?

For the case studies we propose to look at how supervisors proportionally addressed:

- 1. Reducing disclosure content requirements and allowing market sensitive language**
- 2. Proportionality in distribution including electronic means and payment methods**

Determinants of entry (legal framework)

1. Reducing disclosure content requirements
2. Allowing market sensitive language
3. Allowance of fully electronic policies
4. Availability of specific regulations for MI
5. Allowed use of any means of payment

Determinants of entry (market factors)

1. Availability of distribution channels
2. Availability of client / market information
3. Internal technical expertise / capacity
4. Profit potential
5. Availability of market education programs



Industry Consultation on Regulatory and Government Support Measures for Microinsurance and Microtakaful Development (Selected Findings)

Bank Negara Malaysia

IAIS-A2ii Consultation Call

“Regulatory Incentives for Insurance Market Development”

21 January 2016

Introduction

Background

As a part of a suite of initiatives to enhance financial inclusion and insurance penetration, Bank Negara Malaysia has been conducting assessments in order to identify measures to develop the microinsurance/takaful market. These broadly comprise the following steps:

1. Survey on the current state of the microinsurance/takaful market.
2. Engagement with the insurance and takaful industry to understand “supply barriers” that impede the commercial sustainability of microinsurance/takaful.
3. Ongoing industry consultation on strategies to develop microinsurance/takaful. Consultation findings will be used to guide the Bank’s next steps and development approach.

Recent Consultation in Q42015

Objectives

1. Seek industry views on the necessity to introduce proportionate regulation
2. Investigate other forms of useful regulatory or Government support measures
3. Gauge industry interest in and outlook on microinsurance/takaful market

Structure

1. Dialogue session with CEOs of insurers and takaful operators
2. Circulation of qualitative survey to solicit detailed individual company feedback and ideas

Selected Consultation Findings

Other Government or Regulator Support Measures Requested by Industry[#]

Most popular

1. Grant tax incentives or exemptions on microinsurance/takaful
2. "Matchmake" insurers/takaful operators with distribution partners
3. Enhance financial awareness and education of the public
4. Subsidise premium for low-income policyholders
5. Boost public confidence in products via appropriate branding and endorsement by regulator
6. Make selected types of insurance mandatory or automatic via Government schemes
7. Allow flexibilities from prudential requirements
8. Directly reduce risk exposure of target group
9. Conduct research on needs and demographics of the target group

Least popular

[#] Total respondents: 26 insurers, 8 takaful operators, 2 reinsurers

3 Key Considerations In Assessing Measures

1. **Overall microinsurance development strategy** – How would the industry or consumers react to the measure? Is this how we want the market to evolve?
2. **Sequencing** – How would the measure affect other measures? What are prerequisites for the measure to be feasible?
3. **Role of regulator** – Should the measure be regulator-driven or industry-led?

Thank you

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