



# IAIS

INTERNATIONAL ASSOCIATION OF  
INSURANCE SUPERVISORS

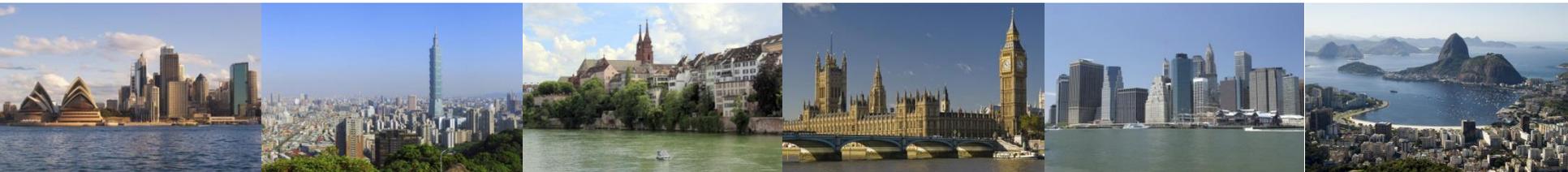
## **Effective Application of the Insurance Core Principles in Digital Inclusive Insurance**

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# IAIS : a global standard setting body

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- **Established in 1994**
- **A voluntary membership organization** of insurance supervisors and regulators from more than 200 jurisdictions, constituting 97% of the world's insurance premiums.
- **International standard setting body** responsible for developing principles, standards and other supporting material for the supervision of the insurance sector and assisting in their implementation.
- **Provides a forum for Members** to share experiences on insurance supervision and insurance markets.

## Mission:

*Promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability.*

# IAIS : a global standard setting body

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- **Insurance Core Principles (ICPs)**

provide a globally accepted framework for the supervision of the insurance sector. ICPs prescribe the essential elements that must be present in the supervisory regime in order to promote a financially sound insurance sector and provide an adequate level of policyholder protection.

- **Guidance material** provides detail on how to implement an ICP statement or standard. Guidance material does not prescribe new requirements but describes what is meant by the ICP statement or standard and, where possible, provides examples of ways to implement the requirements. Guidance papers: identify issues, provide implementation advice, illustrations, recommendations or examples of good practice,

# IAIS papers on Fintech / Financial Inclusion

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- **Application Paper in Regulation and Supervision of Inclusive Insurance Markets, 2012:** Scope for proportionate approach in accordance with nature, scale and complexity of risks; acknowledges unique features of the inclusive insurance market context
- **Issues Paper on Conduct of Business in Inclusive Insurance Markets, 2015:** Digital technology identified as key conduct topic requiring further application guidance
- **FinTech Developments in the Insurance Industry 2017**
- **Application Paper on the Use of Digital Technology in Inclusive Insurance, 2018 :** provides tools to address the challenges raised by new technologies in various stages of product life cycle and in value chain, regulatory considerations and risks to interest of policyholders

# Application Paper on Digital Inclusive Insurance

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Why **digital technology** specifically in inclusive insurance?

Insurtech is a mainstream topic, but unique inclusive insurance considerations:

- **Vulnerability of client** enhances imperative for market conduct and consumer protection measures.
- **Regulatory capacity constraints** and the pace of innovation create imperative for application guidance

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Outline of the application paper

1. Introduction
2. Features of the Inclusive Insurance Market
3. Use and Impact of Digital Technology in Inclusive Insurance Markets
4. The Proportionate Application of the ICPs to Digital Inclusive Insurance

# Digital technology applications in inclusive insurance

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The use of digital technology or FinTech can overcome challenges in the delivery of microinsurance and inclusive insurance products. Such challenges could be:

1. Lack of information on customers
2. Difficulties in reaching consumers
3. Meeting specific needs of the un(der)served consumers
4. Dealing with consumers lacking experience in dealing with formal insurance services
5. Keeping premiums affordable

# Application Paper on Digital Inclusive Insurance



***Premium deductions via airtime or mobile money wallets may be used to overcome premium collection barriers.***

*Digital technology helps make business models more inclusive*



**Improve operations  
and reduce costs**



**Tailor offer to  
consumer needs**

# Implication for supervisors

## Digital technology brings particular challenges for supervisors



The speed of innovation challenges existing frameworks



Longer value chain and new power relationships



Models redefine insurance and intermediary services

# Proportionate Application of the Insurance Core Principles



*“Supervisory measures should be **appropriate** to attain the supervisory **objectives** of a jurisdiction and should not go beyond **what is necessary** to achieve those objectives”, considering the “**nature, scale and complexity**” of the activities.*

- Practices and requirements in inclusive insurance are not less intensive compared to conventional insurance.
- Supervisors need to understand the nature and complexity of risks associated with technological innovation.
- Supervisors should raise issues concerning the proper implementation of the ICPs with policymakers.
- Supervisors are responsible of the proper application of the provisions as provided in the legal framework
- Supervisors take measures to address any shortcomings (eg. lack of technical expertise and resources)
- **The paper provides guidance on the proportionate application of the relevant ICPs in inclusive insurance.**

# Relevant ICPs

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ICP 1

## **Objectives, Powers and Responsibilities of the Supervisor**

*The authority (or authorities) responsible for insurance supervision and the objectives of insurance supervision are clearly defined.*

ICP 3

## **Information Exchange and Confidentiality Requirements**

*The supervisor exchanges information with other relevant supervisors and authorities subject to confidentiality, purpose and use requirements.*

# Supervision: powers, resources and exchange of information

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- ✓ The supervisor needs to have **authority to extend its powers** to all parties
- ✓ **Multiple authorities** involved in supervision should work in harmony
- ✓ Adequate **exchange of information** needed between supervisors
- ✓ The supervisor's staff needs to have **adequate skills and knowledge of technology**
- ✓ Supervisory framework should **facilitate innovation** – (sandbox approach)

# Relevant ICPs

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ICP 4

## **Licensing**

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*A legal entity which intends to engage in insurance activities must be licensed before it can operate within a jurisdiction. The requirements and procedures for licensing must be clear, objective and public, and be consistently applied.*

ICP 8

## **Risk management and internal controls**

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*The supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters and internal audit.*

# Licensing, Corporate Governance and Risk management

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- ✓ Conduct of insurance business is **subject to licensing, authorisation or registration**
- ✓ The insurance legislation should include a **definition of insurance activities**
- ✓ Insurance intermediaries licensed should be subject to **ongoing supervisory review**
- ✓ Insurers should establish and implement governance framework which provides **sound and prudent management**
- ✓ The supervisor **exchanges information** with other authorities

# Relevant ICPs

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## ICP 18

### **Intermediaries**

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*The supervisor sets and enforces requirements for the conduct of insurance intermediaries, to ensure that they conduct business in a professional and transparent manner.*

## ICP 19

### **Conduct of Business**

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*The supervisor sets requirements for the conduct of the business of insurance to ensure customers are treated fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.*

## ICP 20

### **Public Disclosure**

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*The supervisor requires insurers to disclose relevant, comprehensive and adequate information on a timely basis in order to give policyholders and market participants a clear view of their business activities, performance and financial position. This is expected to enhance market discipline and understanding of the risks to which an insurer is exposed and the manner in which those risks are managed<sup>16</sup>*

# Conduct of Business

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- ✓ Insurers and intermediaries need to **treat customers fairly**
- ✓ regulatory framework **should not prevent innovation** and finally harms the customer
- ✓ the supervisor should ensure that **intermediaries are effectively supervised**
- ✓ **strong principles of transparency** should be applied to digital inclusive insurance
- ✓ procedures for the **protection of private information** on customers

# Relevant ICPs

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## ICP 21

### **Countering Fraud in Insurance**

*The supervisor requires that insurers and intermediaries take effective measures to deter, prevent, detect, report and remedy fraud in insurance*

## ICP 22

### **Anti-Money Laundering and Combating the Financing of Terrorism**

*The supervisor requires insurers and intermediaries to take effective measures to combat money laundering and the financing of terrorism. In addition, the supervisor takes effective measures to combat money laundering and the financing of terrorism.*

# Financial soundness and financial integrity

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- ✓ insurers and intermediaries are required to take **effective measures to address risks**
- ✓ intermediaries who handle client monies should **have sufficient safeguards**
- ✓ client accounts **cannot be used to reimburse creditors** in the event of bankruptcy
- ✓ The insurer should take precautions to **prevent claims and intermediary frauds**

# CONCLUSION

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- ✓ Things are moving quicker than ever
- ✓ All stakeholders should be prepared to anticipate or react rapidly
- ✓ Policymakers/supervisors should be prepared to avoid a systemic failure
- ✓ Policymakers/supervisors should facilitate and secure of the whole ecosystem

