Report of the 17th A2ii – IAIS Consultation Call

Experiences in implementing regulatory frameworks for inclusive insurance

21 July 2016

The A2ii consultation calls are organised in partnership with the IAIS to provide supervisors with a platform to exchange experiences and lessons learnt in expanding access to insurance.

The 17th Consultation Call, held on 21 July 2016, focused on experiences in implementing regulatory frameworks for inclusive insurance. Four calls were held: two in English, one in French and one in Spanish.

Technical experts Michael J. McCord (President of the MicroInsurance Centre), Andrea Camargo (Director of Regulation and Consumer Protection of the Microinsurance Catastrophe Risk Organisation, MiCRO) and Patricia Inga Falcon (A2ii, Project Manager of the A2ii-IADB [1] project for Latin America and the Caribbean) presented on key aspects for the successful implementation of an inclusive insurance regulatory framework as well as potential challenges arising in the process. Country experts Cédric Miakwang (CIMA), Sekayi Campbell (Financial Services Commission Jamaica) and Ugo Rodríquez (Superintendencia de Banca, Seguros y AFP del Peru) all shared their jurisdiction's experience with implementing a regulatory framework for inclusive insurance.

Introduction

Developing an appropriate and proportionate regulatory framework is key to supporting the development and growth of inclusive insurance markets and ultimately ensuring more people have access to insurance. However, effectively *implementing* inclusion-friendly regulation is a challenging task in practice. It requires a multifaceted approach tailored to the specific country context. Consultation with numerous stakeholders, targeted capacity building and continuous monitoring are all essential elements of this complex process.

Overview

Since its beginning in 2009, the A2ii has engaged in a wealth of activities that have deepened its understanding of the dynamics and processes driving the development of inclusive insurance markets. From these experiences, the A2ii has adopted an evidence-based approach to support supervisors with implementing proportionate regulation in their jurisdictions. To capture and share its learning, the A2ii has developed a number of toolkits which provide guidance to supervisors wanting to i) conduct a country diagnostic[2] , ii) design a country process for developing their inclusive insurance market[3] , iii) assess the supportiveness of their current regulation and supervision for inclusive insurance[4] and iv) operationalise an inclusive insurance action plan [5]. In addition, experiences from the recently completed three-and-a-half year A2ii-IADB project have been a rich source of learning and knowledge generation on how to effectively implement proportionate regulatory changes in practice.

A2ii-IADB Regulatory Implementation Project

The 45 month (August 2012 – May 2016) project 'Implementation of Regulatory and Supervisory Standards for Access to Insurance in Latin America and the Caribbean' was an initiative intended to contribute to

1 Inter-American Development Bank
2 A2ii Toolkit 1: Country Diagnostic Studies: Analytical Framework and Methodology
3 A2ii Toolkit 2: Country Process Guildelines for Microinsurance Market Development
4 A2ii Toolkit 3: Self-assessment and peer review process
5 A2ii Toolkit 4: Country-level microinsurance development process – operationalising the action plan

the development of the inclusive insurance industry in Latin America and the Caribbean. Focusing on Peru, Colombia and Jamaica, the project aimed at increasing the availability of sustainable microinsurance products by supporting partner countries in developing an enabling regulatory environment for inclusive insurance in their jurisdiction. In partnership with the supervisory authority from each country, the project analysed the regulatory challenges impeding the development of inclusive insurance markets as well as potential opportunities for expansion in each context.

Country process for regulatory reform

Developing an appropriate regulatory environment for inclusive insurance requires the tailoring of interventions to the specific characteristics of each country. Nevertheless, certain general recommendations can be made for implementing policy and regulatory changes that enhance the maturation of inclusive insurance markets. Successfully implementing proportionate regulation requires a standard sequence of a country diagnostic, the development of a regulatory road map and the execution of implementation activities subject to constant monitoring and revision. Additional key elements such as consistent stakeholder dialogue and targeted capacity building should also be seamlessly integrated into the process.

Overall, when embarking upon implementation in practice, key points to consider include:

→ **Taking a holistic view of the process up front**
- It is important to recognise from the beginning the time needed to complete the process so that financial and human resources can be allocated accordingly. Aside from appropriate funding and capacity, it is also vital that there is consistency in the teams involved so as not to lose the momentum or capacity built between stages.

→ **Recognising the process of getting laws and regulations approved and using the method that is most appropriate**
- Changing the law takes a long time and involves multiple layers of authority. Supervisors must be cognisant of the different legal tools available and balance the need for legal certainty against the need to be able to react to changing market conditions in a timely manner.

→ **Understanding that not all changes can be implemented at once**
- Plan for appropriate progression. Not all things can be implemented at once so sometimes implementation must occur in a multi-phased process. It is important to reflect upon what can be done now and what can wait until a later stage.

→ **Allowing sufficient time for dialogue and exchange among stakeholders**

The various elements and timeline recommended for a sound implementation process are outlined below.

Diagnostic

The first step in the implementation process is to perform a country diagnostic. The diagnostic is an analysis of the country's broader financial sector context and state of inclusive insurance markets and is meant to inform the recommendations for policy and regulatory reforms to promote inclusive insurance market development. The aim of the diagnostic is to assess the opportunities and barriers for financial inclusion in a given jurisdiction by examining the wider financial environment in terms of supply, demand, policy and regulation. The diagnostic should provide the critical information needed for supervisors to design a regulatory road map and move forward with implementation. Fundamental to this process is incorporating dialogue with relevant stakeholders, such as the industry and insurance associations, to obtain critical information and perspectives.

The diagnostic phase can and should be done relatively quickly and efficiently and should take between three to six months. It is important that when performing the diagnostic it is neither too detailed nor too soft. While acquiring contextual data is critical, lingering too long on the diagnostic can result in a change in contextual factors by the time one transitions to implementation. As the microinsurance market is very dynamic and rapidly evolving, supervisors must be cognisant of this and move forward appropriately.

The A2ii has developed a Country Diagnostics Toolkit[6] for supervisors outlining the analytical framework and methodology on how to conduct the diagnostic study.

Regulatory Road Map

Once the diagnostic has been completed, the next step is to develop a Regulatory Road Map (RRM[7]) . The RRM is a strategic mapping of implementation activities based on the specific needs identified in the country diagnostic. The RRM serves as a sort of drafting instruction manual for the forthcoming regulatory and legislative amendments and utilises the results of the diagnostic as inputs to help supervisors create a detailed policy framework and map out where gaps exist, what kinds of solutions are possible and, accordingly, what activities can be implemented.

Developed independently by supervisors, RRMs are tailored to enable supervisors to design their own long-term developmental horizon by incorporating the advantages and limitations in preconditions as identified through the diagnostic, whilst also considering their own internal capacities, resources and mandates as well as the capacities and mandates of other relevant entities (e.g. other regulatory authorities) prior to implementation. Key issues that are typically addressed by supervisors in their RRM include a microinsurance definition, how to deal with group insurance, distribution, monitoring and reporting as well as consumer protection.

The development of the RRM should take approximately two to three months and should also include capacity building activities for the respective supervisory authority and/or industry.

To develop a robust RRM to inform the implementation phase, the following are required:

- **An assessment of the supervisory and regulatory authorities' internal capacities and mandates.** This is key for ensuring that the supervisory authority has the ability to implement changes.
- **Proportionality: understanding the market** – inclusive insurance products, distribution avenues and partnerships occurring globally to gauge the key issues, possibilities and opportunities.
- **Understanding the applicable regulatory framework: Insurance Acts, Regulations and Guidelines**
- **Ensuring that the industry is actively involved**

6 Access to Insurance Initiative – Toolkit No.1: Microinsurance Country Diagnostic Studies: Analytical Framework and Methodology
7 Access to Insurance Initiative – Toolkit No.2: Country Process Guidelines for Microinsurance Market Development and Access to Insurance Initiative – Toolkit No.4: Country-level microinsurance development process: operationalising the action plan

Regulatory/supervisory authority institutional assessment

As part of designing the RRM, a thorough, sober assessment of the supervisory authority is required. Dimensions of this assessment include an examination of:

- **Supervisory authority mandate** – explicitly identifying areas of direct-, indirect- and non-intervention
- **Organisational culture** – e.g. *Is a proportionate approach applied?* Doing so greatly facilitates change
- **Capacity** – human resources, systems, monitoring and the identification of an inclusive insurance 'champion' to ensure that implementation is done effectively
- **Engagement** – public and private stakeholder dialogue; other stakeholders include Ministries, other supervisory authorities, insurers and distributors, among others
- **Strategy** – integration of inclusive insurance activities into institutional work plans, staffing and budget
- **Lessons** – take advantage of prior inclusive insurance experiences both internally and externally

Implementation

Following the development of the Regulatory Road Map the next step is implementation. The implementation component constitutes the majority of the process and typically lasts between six to eighteen months or more.

Underpinning the entire process is continuous monitoring and revision, which requires establishing monitoring structures ex-ante and utilising them to consistently assess progress and whether any changes are needed.

Figure 1. Timeline

Implementation Requirements

Moving from the regulatory strategy design phase, successful implementation rests on certain key requirements.

Inclusive insurance 'champions'

Bringing about change is greatly assisted by entrusting the management of implementation with an inclusive insurance 'champion'. This individual is someone specifically charged with ensuring the process is on track and that progress is being made. The 'champion' is typically a trusted individual from the senior management of the regulatory and supervisory authority who has a strong interest in inclusive insurance, an understanding of what changes are needed as well as an overview of the supervisory authority's capacity to enact them. It is critical that the 'champion' has a link to the legal department so as to limit impediments when pushing the process forward. To drive progress, the 'champion' must involve senior decision-makers from the beginning; demonstrate and communicate a clear vision and rationale for inclusive insurance regulation to the industry and other stakeholders; ensure the industry and other relevant bodies are involved; and where possible, maintain a consistent team throughout all stages of the process.

Targeted capacity building with the supervisory authority

To facilitate appropriate policy development, the regulatory authority needs to have a deep level of understanding of key aspects of inclusive insurance – ranging from regulation management and product design to effective distribution for scale. Honing this understanding and achieving impact requires supervisors to look on a global level at the successes and failures of other initiatives, to take sight of good practices and to learn from the challenges other jurisdictions have faced. Training and internal capacity building are critical to ensure that supervisors have the skills needed to properly support implementation and that any changes made are sustainable.

Aside from knowledge development, capacity building is required at the following key points:

- **Drafting the policy framework/RRM**
- **Developing and drafting amendments to existing legislation, regulations, etc.**
- **Training for actuarial and legal staff on inclusive insurance issues to educate about proportionality –** e.g. *How to price microinsurance when there is no data? What are the appropriate tools to effectively protect consumers in inclusive insurance markets? Are traditional tools really protecting this consumer?*
- **Setting up and implementing monitoring and reporting mechanisms**
- **On-going peer discussions and dialogue** – fruitful learning requires not only sharing of successes but also failures

The A2ii offers a number of useful capacity building resources[8] to supervisors.

Industry involvement

For effective implementation, consistent and on-going dialogue with the industry is crucial. Developing regulation top-down severely limits the many benefits that can be derived from industry engagement. Industry input enables supervisors to understand: key components or issues for the policy approach; current innovations, trends and desires within the inclusive insurance sector; and areas of regulation that help or hinder insurers' ability to provide inclusive insurance products. The aforementioned are critical elements that help set the foundation for smooth, effective implementation. Moreover, industry involvement helps build collaboration on other important initiatives that dovetail regulation, such as financial education, and assists supervisors in avoiding burdensome or over-costly regulation. Finally, on-going dialogue with the industry enables supervisors to better understand consumer protection issues and needs and ensures that regulation strikes a balance between consumer protection and the ability of insurers to provide simple, efficient products without additional significant regulatory compliance costs.

Proportionate approach

Proportionality is key for the effective application and implementation of inclusive insurance policies. A proportionate approach demands supervisory actions that are in accordance with the nature, scale and complexity of individual insurance business. Proportionality justifies simpler, less burdensome ways of meeting the requirements for low-risk activities, yet also looks at more complex risks/situations and treats them in a way that may require more sophisticated methods and techniques. Certainly in terms of solvency, inclusive insurance is lower risk. However, it is generally more complex in terms of consumer protection – regulators must thus ensure that consumers are provided with valuable products at a low price and with full knowledge of the product they are purchasing.

8 Please see the A2ii website for a comprehensive list of the capacity building tools that we offer. These include online toolkits, e-learning module, week-long training workshops and a range of publications and dialogue events (e.g. Consultation Calls and Consultative Forums).

Challenges

There are a number of common challenges that supervisors may face when seeking to implement regulatory frameworks for inclusive insurance. These include:

→ 1. Rigid insurance acts/laws

- A flexible legal structure greatly eases the implementation process. In general, there exist two kinds of regulatory structures: (1) common law and (2) civil law. In common law structures, the law continuously 'evolves' as a result of ever-expanding activities. This less-detailed regulatory framework tends to make it easier to accommodate inclusive insurance as there is space for other regulatory authorities to amend or issue key pieces of insurance regulation (e.g. through circulars, memorandums or other secondary legislation) rather than having to go directly through Parliament. In civil law structures, on the other hand, actions are not allowed unless specifically included in the law – regulations are much more detailed, structured and rigid, making it more challenging to implement changes if new activities and requirements for inclusive insurance are not already addressed in the existing framework. In civil law, jurisdictions will tend to regulate every detail of the insurance contract through a Commercial Code, Insurance Code or Insurance Contract Law. This means that the regulatory mandate has been absorbed by Parliament and that any change must be realised in the same manner that it was enacted. Despite this rigidity there are nevertheless certain changes that can be made to facilitate the expansion of inclusive insurance within a civil law structure, but only if they somehow fit within the existing framework. When regulations are too rigid, however, substantial legislative changes are typically required which often require the legislative body's approval. This may also be the case in common law jurisdictions where an activity is expressly prohibited or where existing regulation is too detailed.

→ 2. The regulatory environment is beyond the jurisdiction of the insurance supervisory authority

- The regulatory environment often extends well beyond the purview of insurance supervisors. In certain jurisdictions, regulation for areas that are key to inclusive insurance are reserved for an authority other than the insurance supervisor (e.g. the Central Bank, the Ministry of Finance or even Parliament), giving the supervisory authority residual regulatory capacities. In such cases it is vital to consider the involvement of and collaboration with these other regulatory bodies. Additionally, inclusive insurance products have become much more complex, and with the advent of technological innovation the relevant regulatory sphere has drastically widened. More governmental and non-government entities are involved. Depending on the insurance product, the distribution channels as well as other factors, multiple authorities may be involved on the regulatory and/or supervisory level and may include (in addition to the insurance authority) any combination of: the Ministry of Finance, Ministry of Cooperatives, Ministry of Agriculture, Ministry of Health, the Central Bank and Telecommunications Authority. These are among the breadth of players that have oversight of parts of the inclusive insurance value chain in many jurisdictions. Effective coordination between these bodies is required to ensure a coherent implementation approach and process.

Case Studies – CIMA, Jamaica and Peru

The following country examples were shared by supervisors from CIMA[9] , Jamaica and Peru on the calls.

CIMA

CIMA outlined their provisions for implementing a proportionate regulatory framework for inclusive insurance and shared their efforts to stimulate innovation in the microinsurance sector. The regulation entails a host of specifications and is aimed at creating favourable conditions to develop the market and enhance access to inclusive insurance products, as well as ensure the incorporation of consumer protection measures.

Proportionate Regulation for Microinsurance

Definition – targeted at the low-income segment, CIMA's definition of microinsurance entails simplified procedures and low sums assured

Contract – translate and market contracts in the local language of the target population, adjust output conditions (e.g. lower premium levels, increase flexibility of time to pay premiums, shorter time to pay claims), set the cash surrender value at least equal to the contributions paid, open group subscriptions to persons other than corporations, possibly set prices on the index base, and require rapid and simpler claims settlement

Industry – lower the minimum capital requirements (e.g. share capital)

Accounting principles – publish a definition of financial performance ratios

Distribution – openness to new distribution channels, formal and informal alike; embrace technological platforms

Challenges

Nevertheless, some difficulties were encountered in the implementation process. These include:

- Fixing the maximum amount of the sum assured or premium for each type of risk
- The limit of the sum assured requires the microinsurance portfolio to be of a certain 'critical mass' to be sustainable
- Classic insurance problems of the insurance sector (e.g. reputation, distribution costs, financial literacy, etc.) persist or are even more pronounced
- Innovations are required by the industry to serve the low income target market, however not enough innovation has been occurring
- The relaxation of exit conditions and requirements on surrender values can be perceived as overprotection of the insured, thereby undermining the profitability of insurers and dis-incentivising insurers from wanting to offer products

The main takeaways from the CIMA experience are that in addition to adopting a proportionate approach, allowing new distribution channels and capitalising on technological advances is crucial for expanding the market and access to inclusive insurance.

9 Conférence Interafricaine des Marchés d'Assurances, or the Inter-African Conference on Insurance Markets

JAMAICA

Diagnostic and Regulatory Road Map

Jamaica's implementation of a regulatory framework for inclusive insurance began about two years ago. As part of the A2ii-IADB's project 'Implementation of regulatory and supervisory standards in microinsurance markets in Latin America and the Caribbean'[10], a diagnostic report on microinsurance was performed and published in August 2014[11]. The findings from the diagnostic revealed that the country had a nascent microinsurance market, no microinsurance regulation in place and limited industry engagement. The existing regulation would not accommodate the range of characteristics of microinsurance and adaptations would be necessary. After the diagnostic was performed, a RRM was developed by the Financial Services Commission Jamaica (FSC) as a strategic plan for developing the country's microinsurance market.

The diagnostic identified three dimensions of challenges facing the country's microinsurance market and offered broad recommendations embodied in the country's RRM.

Figure 2.

	Identified Challenges/Barriers	Recommendations (RRM)
1	**Supervisory and regulatory obstacles:** e.g. limited distribution options, technological platforms not allowed, bundling of risk prohibited	**Supervisory and regulatory obstacles:** e.g. limited distribution options, technological platforms not allowed, bundling of risk prohibited
2	**Little industry interest, engagement or capacity**	Promote awareness of the potential of the microinsurance market through stakeholder involvement
3	**Low consumer demand, low financial literacy**	Encourage consumer demand and increase insurance literacy while championing consumer protection

Implementation

Over the past two years progress has been made to achieve the steps laid out in the RRM, including:

→ *Developing tailored microinsurance regulations which can be fitted into the existing insurance legislation*

- E.g. Allowing for separate regulatory treatment for microinsurance, creation of a definition, change in the product approval process, adaptation in requirements for microinsurance intermediaries, consumer protection measures

→ *Collaborating with the insurance industry through the Inclusive Insurance Committee*

- An Inclusive Insurance Committee, a joint committee between the FSC and industry, was set up for the purpose of industry collaboration. In the Committee industry representatives share their point of view about what they think regulation should look like and discuss the impact of certain decisions on their ability to do business.

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10 An article summarising the project can be found in the Microinsurance Network's annual publication The State of Microinsurance, pp.23-29.
11 Jamaica Country Diagnostic: Improving access to insurance for the low-income population in Jamaica

- *Facilitating capacity building sessions involving the industry and international partners*
  - The FSC has undertaken capacity building for their staff on microinsurance concepts such as how to monitor client value. For this, they have taken advantage of learning resources through the A2ii, the IAIS, the MIC and other regulators. Capacity building for the industry has also taken place on issues such as product design.
  - From 3-7 October 2016 the FSC, in collaboration with the A2ii, IAIS and Toronto Centre, will host an inclusive insurance training in Kingston, Jamaica. The session will include hands-on training on key concepts such as proportionality as well as the discussion of case studies to facilitate knowledge dissemination.
- *Hosting inclusive insurance events that encourage financial education and interaction among insurance providers and the target market*
  - In addition to establishing the Committee, the FSC has held a wide range of events to reach out to the industry, target market, or both simultaneously. Examples include speaking about inclusive insurance on a Radio Jamaica broadcast or visiting the College of Insurance and discussing the potential that exists in the microinsurance business line.
- *Increasing financial education through radio broadcasts and programmes, media mostly used by the target market*

PERU

Peru is an example of a jurisdiction that has adopted a flexible and iterative process towards regulatory implementation. Following the passing of the first regulation on microinsurance in 2007, the country has embraced a 'test-and-learn' approach, taking into account the lessons and experiences gained from prior legislation and amending or adjusting regulations accordingly. The latest amendment, a new microinsurance regulation, was ratified in May 2016.

The Policy Registration Process: Old and New

The former policy registration process in Peru was cumbersome and seen as a barrier for microinsurance development by the industry. Under the old legislation, policy revision was undertaken by four different departments[12] of the Superintendencia de Banca, Seguros Y AFP (SBS); there was no single policy standard specialised for insurance; and all policy models were subject to further review ex-post, making the entire registration process extremely slow. Recognising the need for streamlining, the SBS, along with specialists from the private sector and government, drafted a new law, Insurance Contract Law No. 29946-2012, targeted at addressing these limitations and taking a proportionate approach to amend the existing infrastructure.

There are two review systems for product registration in Peru: (1) ex-ante revision and (2) ex-post revision. The ex-ante review process is in place for mass, mandatory and personal insurance products and entails a revision of the policy model content *before* the product is commercialised. Ex-post revision, on the other

12 While four different SBS departments were involved in the procedure, they all followed centralised commands and only one was in charge of the required coordination with insurance companies.

hand, entails a quick formal revision to ensure that the product meets certain key criteria, and the entire policy content is scrutinised *after* the product has been registered and while it is being marketed.

As approval time was identified as one of the main market barriers by the industry, the logic underpinning the new law was to keep the content requirements to a checklist of minimum conditions and make the process more flexible. In addition to the changes made to the two revision systems, the Insurance Contract Law made changes to the organisational structure and made the Department of Legal Supervision and Financial Services Contracts (DSLC) the sole body charged with reviewing registration policies. The Insurance Contract Law made significant improvements to the previous law by unifying the product review criteria, standardising clauses and streamlining the bureaucratic structure. To further expedite the process, a new virtual platform ('SIRCON') for reviewing policies is currently in the final stages of becoming live. For the implementation of these new measures, the SBS has modified the document 'El Regalmento de Registro y Modelos de Polizias y Notas Tecnicas' and issued Circular No. 2232-2016.

Microinsurance Registration Process

Initially, the Insurance Contract Law explicitly stated that it did not apply to microinsurance. However, stemming from experiences gained through supervision, the SBS recognised that regulatory modifications specifically addressing microinsurance products would have to be made. The Regulation on Microinsurance Policies (SBS Resolution No. 2829-2016) was thus codified as a sub-regulation of the Insurance Contract Law in 2016. The new regulation outlined the following:

- → The review of the registration process for microinsurance products shall take place ex-post in two stages:
  - (1) A quick **formal review** conducted using a short 'checklist', after which upon successful approval registration will be granted within 15 working days
  - (2) A **subsequent review** in which the content of the microinsurance policy will be reviewed using standardised 'Microinsurance Guidelines'
- → The documentation required for product registration will be simple and take heed of consumer protection concerns. For individual microinsurance products, this entails a simplified policy, additional clauses and an insurance application. For group microinsurance, the required documents are an insurance policy, additional clauses and an application certificate.

Challenges

Even with the new regulation, the SBS frequently observed that plain language was not used when drafting microinsurance contracts and that there was excessive use of 'cases of exclusion'.

The primary challenges encountered in the implementation process were:

- → Incentivising insurance companies to register microinsurance products under the new process which is quicker and more dynamic
- → Codifying the differentiation between 'Micro' and 'Mass' insurance in the market through the registration process

Questions and Discussion

In the presentation it was mentioned that there is a multi-phase process where countries try to do things within the existing law and not under a specific microinsurance regulatory framework. What are some of the things that countries can do without yet having a specific framework in place? This is often a very timely process and not necessarily under the control of the regulator, as sometimes many different stakeholders and ministries have to give their approval.

There are certain things that can be done without having a full-fledged regulatory framework for inclusive insurance in place. In this respect, a multi-phase process should be adopted recognising that there are areas that can be addressed now given the existing legal framework, and elements that can only be addressed later within a new law. A good example of this is Egypt. Egypt has very rigid regulations that have inhibited the supervisory authority from making larger inclusive insurance changes, such as in terms of distribution channels. How the regulatory authority went about progressing inclusive insurance, then, was to first create a definition to identify *components* of distribution through which they could expand the market. For example, they found ways to expand the existing bank assurance regulation to include some microinsurance distribution channels. They recognised that more comprehensive changes would need to be done through a change of law and would take much more time. So the Egyptian supervisory authority took the time to understand what needed to be done and identified the 'low-hanging fruit' within the regulation. The key takeaway is that even in the most rigid of frameworks there exist ways to make incremental changes and progress can be made through smaller steps.

In some countries like Peru or Ghana we see that many changes in regulation have taken place. From your experience, do you think that this is rather common? Do you think that a country can finish a policy framework in one go or is this always an iterative process?

Success means not only issuing a regulation but also very closely monitoring it and engaging with the industry to assess what is happening (i.e. how the industry uses, or doesn't use, the framework and which consumer protection concerns arise). Iteration is thus an almost inherent element of the implementation process. For example over the past ten years the Philippines has adapted ten pieces of regulation, has had three definition updates and had initially built its regulatory framework around a circular that since 2006 has been added to and amended multiple times. An iterative process is necessary due to the rapid developments and advances of the industry itself. Technological advances such as mobile phones or electronic signatures, as well as new opportunities like index insurance, have introduced new issues into many jurisdictions. These new issues have often required additional or adaptive regulation. Ultimately, supervisors must remain vigilant of the constant developments of the market and continuously adjust traditional insurance regulations to take light of these changes. When supervisors don't and when they're not flexible, that is when problems arise.

How can supervisors regulate mobile services for insurance products?

Regulating Mobile Network Operators (MNOs) who wish to intermediate insurance products often requires cross-jurisdictional discussions – between the insurance commission, telecommunications regulator (e.g. the public utilities commission), Central Bank, data protection agency and even the tax authority, among others. Issues can arise with the other regulatory authorities as each body has its own interests and perspective on what they consider important. The key is to involve these players early on to ensure a harmonious and consensual process, rather than approaching them at the end to impose a list of changes.

Moreover, based on discussions from a recent A2ii mobile insurance workshop[13] in the CIMA region, many jurisdictions shared that it is the telecom operators – rather than the insurers themselves – who are more trusted

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13 More information on the CIMA mobile insurance workshop can be found here. The A2ii will host another conference on mobile insurance early next year in West Africa which will be open to all supervisors. Please reference the A2ii website for future updates on the event.

by the market, have a wider customer base and are thus driving forward mobile insurance in the country. It is therefore important to work closely with other regulators to determine who has what role and ensure a mutual benefit for all parties involved. A test-and-learn approach is helpful here to move the process forward, but the process of monitoring results for successes and failures in the market is then critical.

If you want to alter the distribution mechanisms available to the industry by expanding distribution to channels supervised by a different regulator, does the other regulator have to adjust their legislation to accommodate for the insurance product? If so, how can this be done?

Getting two or more regulatory bodies together to make such joint decisions is a challenge in many jurisdictions; however, it is necessary and requires a great deal of coordination. A good example is the Philippines. The insurance commission in the Philippines wanted to expand distribution through the use of rural banks, which were regulated by the Central Bank. While national insurance law allowed these institutions to be distributors of insurance, banking regulation specifically excluded them from these activities. There thus had to be a great deal of dialogue between the Central Bank and the Insurance Commission. Other regulatory jurisdictions, including the Securities and Exchange Commission, were also brought in to create a road map for how these rural banks could become agents for inclusive insurance. Because of this cross-jurisdictional regulatory coordination, the Central Bank was able to make adjustments together with the Insurance Commission to expand distribution channels for inclusive insurance products and provide access to insurance products to an additional six million low-income people.

In the CIMA region, as in other jurisdictions, regulatory conditions may change and supervisors must react to these changes. It was mentioned that CIMA issues circulars to adapt certain aspects of their regulation. Have there been any changes to the regulatory framework since its inception? And to what extent is a 'test-and-learn' approach preferred as opposed to a rigid regulatory framework?

Cédric Miakwang responded that in CIMA there haven't been any major changes in the regulatory framework for microinsurance. However, there is the possibility of re-evaluating certain aspects of the regulatory framework based on the experiences that have been gained since the regulation's inception. In CIMA there exist several 'levels' of regulation, some of which are very difficult to change where any modification would require substantial amounts of resources. However, there also exist other more easily modifiable rules that regulators can adjust without having to alter the entire regulatory framework. In this context, a 'test-and-learn' approach is possible. Ensuring access to inclusive insurance is a dynamic process that must be constantly monitored and followed up on. Supervisors must be open and learn from the lessons and experiences that have been gained in the past.

Regulation in the CIMA region allows for a wide range of distributors – licensed brokers, individual agents, banks, mutuals, MFIs and trade unions to name a few. To what extent is this flexibility useful?

In the context of microinsurance, we are speaking about the vulnerable population segments that have often never been to a bank branch before. We must therefore 'infiltrate' the places that they go in order to ensure that they can access these products. The CIMA Microinsurance 'Code' allows for the use of distributors such as MFIs, cooperatives, etc. so that many of their members can be reached. The 'Code' distinguishes between those who can issue insurance (rules are relatively strict) and those who can distribute insurance (conditions are more relaxed). Ultimately, flexibility to allow a large range of distributors is important for inclusive insurance as is it important that distributors that are trusted by the target group can be used.

Should Technical Service Providers (TSPs) be allowed as inclusive insurance intermediaries and are they necessary?

TSPs are often important when telecom firms and insurers start becoming interested in inclusive insurance. TSPs can play an important role in educating and motivating the market and can also show supervisors what has and is being done in other countries. Thus at a first stage they are important, however later on in the process, perhaps not as much. Luc Noubissi from CIMA shared that his main concern with allowing TSPs as an intermediary is ensuring that they do not increase premiums, which must be paid by the low-income population. His view is that if premium levels do not increase, then TSPs could be allowed.

Jamaica mentioned that implementing an inclusive insurance framework requires a team approach, dedication and consistency in teams. How resource-intensive is this?
Sekayi Campbell shared that from the FSC's experience, establishing a proper team approach to implementation requires a great degree of time, effort and commitment. For the FSC, it took a lot of time to move from the position where the concept of inclusive insurance was relatively new to one where the team felt as if they had a strong grasp of the issues and actions required. Because the FSC had input from and needed to coordinate many different divisions, the process was neither easy nor quick. They did, however, receive a tremendous amount of help from their partners (e.g. the A2ii, etc.) which facilitated the process. Nevertheless, Ms Campbell stressed the importance of dedicating the time and resources necessary to do things correctly. When thinking about the positive outcomes of including more persons in financial markets, the investments are certainly worth it.

Within FSC Jamaica, what is it like being the microinsurance or inclusive insurance 'champion'. What does this really mean in terms of the activities done on a day-to-day basis to move the implementation process forward?
Sekayi Campbell responded with three key takeaways from her experience of being the 'champion' of FSC Jamaica. First, she shared that although she had been imparted the role of the 'champion', it became very clear from the start that she did not know everything required for implementation. She had to be guided by other members of her team on key aspects of the implementation process – legal, insurance or other. Drawing from this, she advised that the first thing to do as the 'champion' is to recognise that the process requires a team approach, to capitalise on the knowledge and expertise of those more specialised, and to coordinate and create solidary to drive progress forward. Second, she said that another important though challenging aspect of being the 'champion' is somehow managing to convince a team that has competing high-priority agenda items that implementing inclusive insurance regulation should be allocated the appropriate time and attention. The third point she mentioned was the importance of continued learning. She stressed the importance of keeping on top of what is happening internationally to continue to grow one's knowledge base and keep up with the dynamic and rapidly shifting sector.

What were the specific needs and product types identified for the lower-income population in Jamaica? It is quite likely that these will be similar in terms of the population in neighbouring Caribbean countries.
The FSC referenced information from the A2ii-IADB project country diagnostic[14] as well as discussions from the joint FSC-industry Inclusive Insurance Committee meetings. Ms Campbell shared that products must be simple with market-appropriate benefits and premiums, and that in terms of needs, people tended to state a need for life coverage and health insurance.

When in the implementation process did the FSC start involving the industry? How often did you meet and discuss with the industry, and how trustful was this relationship?
In Jamaica from the initial launch of the country diagnostic report, the industry was involved. They were consulted during the diagnostic and were invited to the final publication event of the diagnostic report.

14 A2ii-IADB project Jamaica Country Diagnostic

Following this an Inclusive Insurance Committee, a joint committee between the FSC and the industry, was formed at the start of the implementation phase; they Committee has set the goal to meet at least on a quarterly basis. With regards to the trustfulness of the relationship, Ms Campbell stated that from her perspective, she thought the relationship was very open. She shared that even outside of Committee meetings she receives calls from members who share their opinions and thoughts on how to enhance the development of the inclusive insurance market.

Could you please provide an example of how different jurisdictions deal with Anti-Money-Laundering (AML) issues in proportionate inclusive insurance regulation?

AML regulations should be proportionate to the risk of the policy. Thus in a number of jurisdictions AML regulations allow some degree of flexibility for insurance policies below a certain value threshold (i.e. for the low-income segment). For example, in the case of Malaysia, identity verification documents do not need to be provided at the time of purchase and verification is delayed to a later point in the transaction (i.e. to the point of claims). In some other jurisdictions that are working with mobile insurance, AML standards recognise the proportionality of allowing the MNO rather than the insurer to conduct AML procedures. If the client is already registered with the MNO, for example, then the insurer does not have to conduct Know-Your-Client (KYC) checks.

In Peru, is there a Microinsurance Supervision Manual?

In the case of Peru, supervision of microinsurance involves several areas of the SBS. Each, according to the functions assigned, has tailored supervision manuals and/or guidelines. So, for example, the Department of Legal Supervision and Contract Management is responsible for the registration of insurance and microinsurance policies. Their guidelines are very different from those of the Department for the Supervision of Market Conduct, which is charged with monitoring the transparency of information and unfair terms.

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