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# Access to Insurance Initiative

A global programme for sound regulatory and supervisory frameworks

## A2ii-IAIS Consultation Call: 23 July 2015 “Risk-based Supervision in Inclusive Insurance”

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## Agenda

1. Why Does RBS Matter in Inclusive Insurance Markets?
2. A Shared Point of Departure: Definitions
3. Proportionate Approach to Regulation and Implementation
4. Planning for RBS in an Inclusive Insurance Market
5. Country examples – Albania & Burundi
6. Discussion: questions and contributions





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## INSANITY

Insanity is doing the same thing over and over and expecting a different result.

*Einstein*





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## 1. Why Does RBS Matter in Inclusive Insurance Markets?

### Your Current Solvency Regime: Defined

- Rigid, formulaic minimum capital requirements applied to all insurers.
- Rigid, formulaic capital requirements that include simple risk factors applied to all insurers.
- Capital requirements based on comprehensive set of risk factors tailored to the complexity of the individual insurer.

or somewhere in between?!





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## 2. A Shared Point of Departure: Definitions I

### RBS Defined

*A structured process aimed at identifying the most critical risks that face each company and, through focused review by the supervisor, assessing company's management of risks and company's financial vulnerability to potential adverse experience.*

*Source: World Bank*

### Principle of proportionality (Solvency II)

*The principle of proportionality requires that supervisors assess compliance with a regulatory framework in a manner proportionate to the nature, scale and complexity of the risks inherent in the business of insurers.*





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## Financial Inclusion Defined

*The condition whereby all working age adults have effective access to credit, savings, payments, and insurance from formal providers.*

## Microinsurance Defined

*Any form of protection against risks designed for and accessed by low-income people, provided by different categories of carriers operating on basic principles of insurance and funded by premiums.  
(IAIS 2007)*





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## Inclusive Insurance: Defined

- Emerging term.
- Reflects underlying objective of financial inclusion: increasing access to affordable and appropriate insurance products.
- Less reliance on “low income” and insurance products designed for low income or under- served people.
- Addresses particular risks and insurance needs specific to the under-served population.
- Not just “scaled down” traditional insurance.





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## 3. Proportionate Approach to Regulation and Implementation

### An example...

- Proportionate approach to regulation minimizes need for actuaries while defining areas where actuaries are needed or not.
- Approach will depend on unique local insurance market (a “one size fits all” approach will not work).
- Each regulator needs to assess characteristics of market, including existing regulations, balancing need for actuarial services with available supply.





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## IAIS Guidance

- Prudential supervision should be risk based and proportionate.
- ICPs 13-17: reinsurance, valuation. Investment, ERM and capital adequacy apply to all insurers.





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## 4. Planning for RBS In an Inclusive Insurance Market

### Getting “Risk” Oversight Right as a Regulator

- What risks – to insurers, customers, or supervisory objectives – are posed by a particular situation?
- What are likelihoods of risk being realized and consequences if realized?
- What alternatives are there?
- What are costs/benefits of each alternative?
- Which alternative offers lowest cost – financial and intrusion- while mitigating risks?





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## 5a. Country example - Albania

### Albanian Financial Supervisory Authority (AFSA)

#### Established in 2006

- Securities Commission (Parliament, 1996);
- Insurance Supervisory Authority (Ministry of Finance, 1998);
- Inspectorate for Supervising Private Voluntary Pension Funds (Prime Minister, 1999).

#### Integrated supervisory and regulatory authority

- Supervisory and regulatory functions (complete cycle);
- Prudential supervision and market conduct;
- Insurance, capital and investment funds, private pension funds, and other.

#### Financial Stability

- Central Bank and AFSA the financial regulators;
- Tri-party group to advise on issues of financial stability.





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## Early identified issues

- very small market mainly non-life oriented
- domination of compulsory MTPL / fixed tariffs & unfair competition (now liberalized)
- low contribution to the country's financial market assets
- low penetration and density compared to the region
- limited investment alternatives
- weak risk management and corporate governance practices
- low public awareness and financial education
- **high potential for further development**
- **continuously increasing interests of foreign strategic investors (since 2007)**

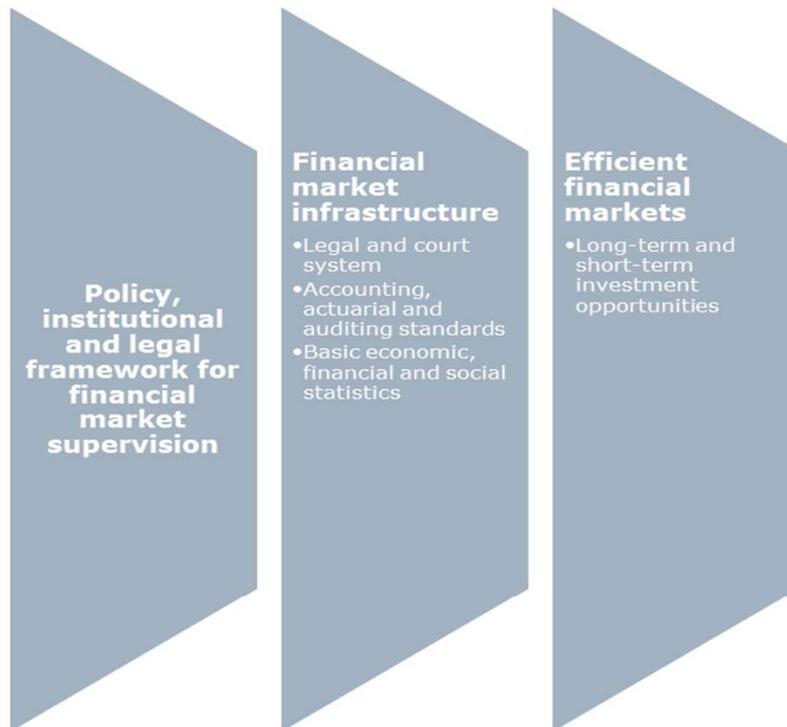
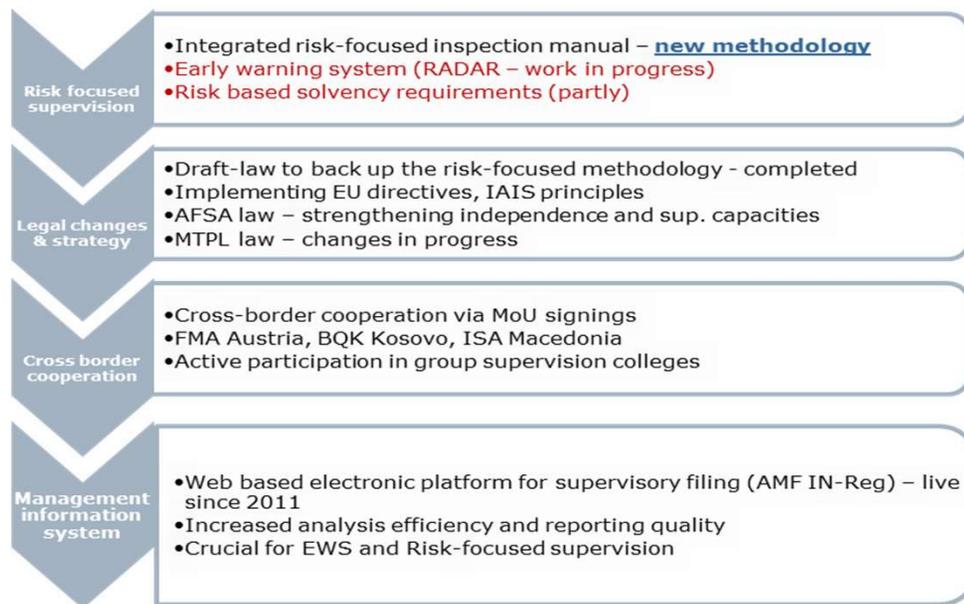




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## Reforms & developments

### Conditions for effective supervision



#### Main pre-requisites for implementing RBS in Albania



Risk/principle based legal framework - completed



Support of the legal system – big challenge



Reliance on the industry in many aspects (CG, RM, Fit & Proper, data quality) – big challenge

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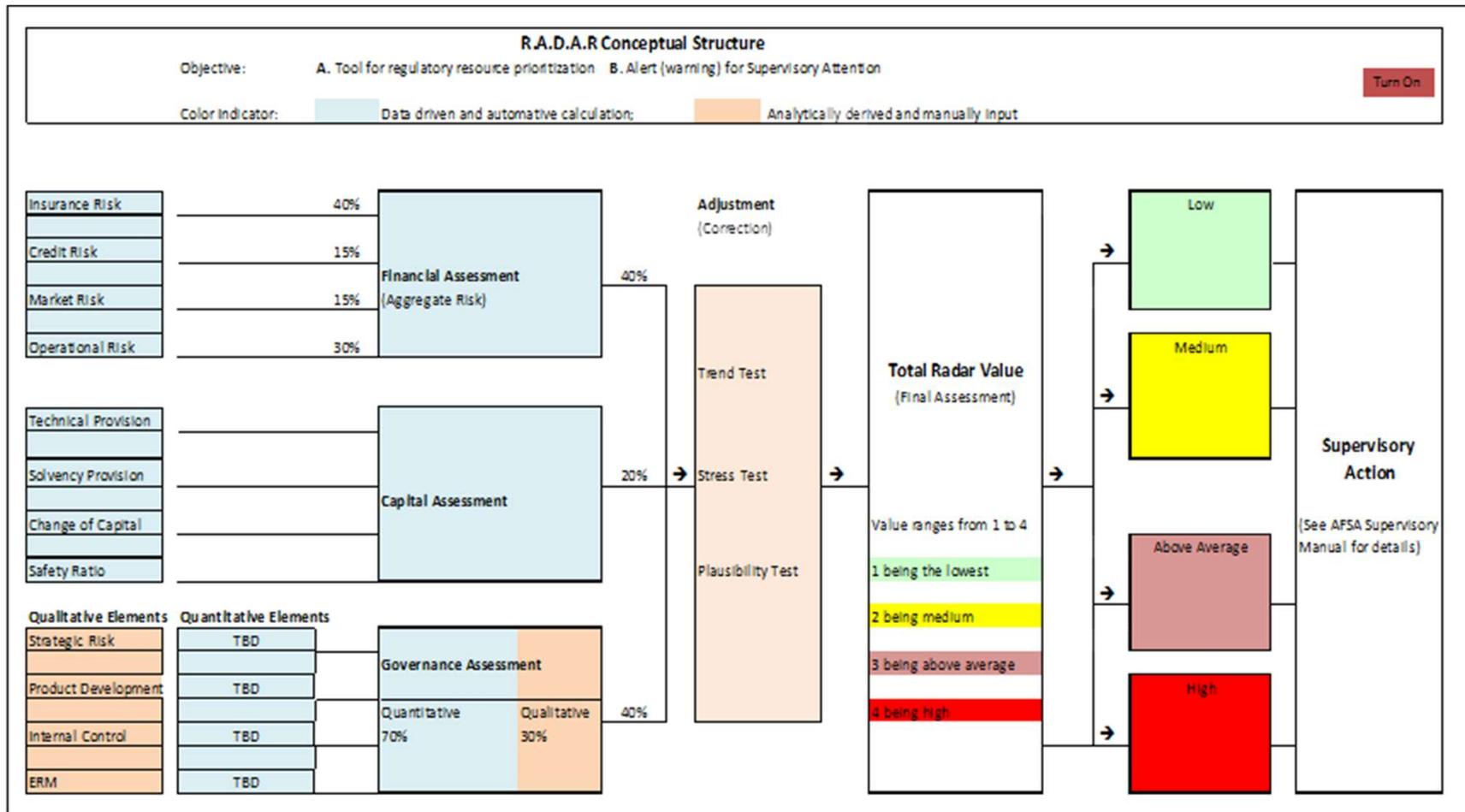






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## 5b. Country example - Burundi

### Short presentation of ARCA (Insurance regulatory and supervisory agency)

- Created in 2001 and placed under the authority of the Ministry of Finance:
  - Operationalised in 2011 thanks to the support of the World Bank
  - Equipped with technical staff in March 2013
  - Legal and regulatory framework revised in 2014
- Mission (generally)
  - Ensure market supervision and promote insurance industry
  - Supervise application of insurance regulation
  - Ensure the protection of collective savings and supervise investments
- Financial stability:
  - Central bank and ARCA: regulators of the financial sector





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## Overview of the insurance market

- Small market size with 6 insurance companies;
  - 4 practice insurance operations “life” and “non-life”;
  - 2 other only “non-life”.
- Car insurance biggest market share (with observed unfair competition);
- Contribution to GDP almost inexistent;
- Low concentration level compared to East African Community average;
- Missing training and technical experts/ professionals (eg actuaries, accountant);
- Low capacities in the areas of risk management and governance;
- Problems in collecting data





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## Some developments

- Insurance law revised and complies with ICPs
- MoU with East African Association of Insurance Supervisory Authorities (EAISA) signed for cross-border supervision
- Manual for cross-border supervision and insurance groups developed
- Capacity building for insurance practitioners in Burundi since 2014 (support from EAC and World Bank)
- Plans to implement a risk-based supervision approach





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## Some challenges to be met

- Efficient risk management program
- Effective corporate governance
- Need of actuaries
- Implementation of a risk-based supervision using CARMELS (plan adopted in 2014)

### Some remarks:

- **ARCA wants to meet these challenges soon;**
- **CARMELS is already used partially;**
- **Recruitment process to engage a trainer and to elaborate a RBS manual is in place.**





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## 6. Discussion: questions and contributions

### Your RBS/Inclusive Insurance Action Plan

- What are the first three things you will do after this call to assess the application of RBS to an inclusive insurance market?
- How will you introduce or expand assessing risk in your current solvency regime?





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