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Access to Insurance Initiative

A global programme for sound regulatory and supervisory frameworks

9th Consultation Call: 26 Mach 2015, 2pm CET

“Mutuals, Cooperatives and Community Based Organisations (MCCOs)”

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Agenda

1. Important role of MCCOs in inclusive insurance
2. Common organisational forms of MCCOs
3. Regulation and supervision of MCCOs
4. Areas where different supervisory considerations are potentially needed
5. Country case studies
6. Discussion: questions and contributions





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1. Important role of MCCOs in inclusive insurance

- **MCCOs can improve the effective provision of insurance services to groups of the population that would otherwise be underserved or not served at all as they are supportive in overcoming...**
 - geographic challenges
 - cultural challenges
 - business model challenges
 - service and product design challenges
 - challenges due to socio-economic circumstances
 - value challenges

- **MCCOs can provide a range of services - in addition to most MCCOs being risk carriers some provide administrative, educational and distribution services**





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2. Common organisational forms of MCCOs

- **Diverse range of types of organisation may be described as MCCOs including:**
 - Mutuels
 - Mutual benefit organisations
 - Cooperatives
 - Friendly societies
 - Burial societies
 - Fraternal Societies
 - Community-based organisations
 - Risk pooling organisations
 - Self-insuring schemes
- **Key defining characteristics of MCCOs include member ownership, democracy, solidarity, the fact the organisation is created to serve a defined group and purpose and the memberships entitlement to profits.**





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3. Regulation and supervision of MCCOs

- **Challenges in regulation and supervision vary depending on jurisdiction, organisational form and other country-specific characteristics**
- **The key question is, what is an effective regulatory and supervisory regime that will encourage the expansion of insurance by these institutions to “the poor”, while at the same time minimise failures that may affect consumers and introduce instability in the system, for example a country...**
 - may have a formalisation challenge – integrating them into the formal insurance sphere
 - may face the threat of regulatory arbitrage – if they are favoured under the current regime compared to commercial insurers
 - may want to incentivise and nurture them as they are the ones close to the low-income and rural population, having significant outreach





4. Areas where different supervisory considerations are potentially needed - Formalisation

- **IAIS application paper recommends that**
 - all entities that act as insurers should be subject to licensing;
 - however supervisors should consider “the proportionate nature of the licensing method and process, the possibility of using a registration option and the potential for the licence to be restricted or limited in scope”

- **Questions for consideration:**
 - What differences should be allowed in the level of supervision and licensing between MCCOs and conventional insurers? For different types of MCCOs?
 - What threshold should MCCOS exceed in order to require formalisation?
 - How can a transition path be structured, and what effort does it require for both supervisor and candidates?





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4. Areas where different supervisory considerations are potentially needed - Key technical topics

- **Governance:** MCCOs may need different requirements in the areas of boards, owners
- **Financial requirements:** options and challenges MCCOS have in raising capital; guarantee funds as transitional instrument until capital is built; capital requirements during transitional phases;
- The opportunities a **union/apex structure** may provide for supervision and MCCO development
- **Demutualisation, or licensing** of a cooperative insurer as commercial company





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5. Country case - Philippines





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MCCOs in the Philippines (1) Historical perspective

- **1974/1978: Insurance Code** provides legal basis for mutual benefit associations and cooperative insurers
- **2001: Card Mutual Benefit Association** licensed as mutual insurers, first dedicated microinsurance provider
- **2006: MI circular**, defining MI and creating separate tier of MI-MBAs
- **2008: High level of informality** of cooperatives providing “mutual fund schemes” and also, of Microfinance Institutions, many of them were founding MI-MBAs
- **2010 ff: Microinsurance Sector development** with National Microinsurance Strategy, Regulatory Framework, Financial Literacy Strategy, Alternative Dispute Resolution – for commercial insurers and MCCOs





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MCCOs in the Philippines (2) Approach taken

- **Formalization path** for dedicated Microinsurance Mutual Benefit Organisations (2006 Circular):
 - minimum of 5000 members
 - lower amount of guarantee fund to be built up over time
- **Interagency cooperation:** Insurance Commission, Cooperative Dev. Authority and Central Bank
- **Separate performance reporting** to IC of all microinsurance providers, allowing to trace ratios, e.g. claims, renewals





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MCCOs in the Philippines (3) Achievements

- **Microinsurance mutuals as underwriters in life business** have been an important driving force in microinsurance, showing commercial insurers that MI works
- **CARD MI-MBA as role model** and a kind of “franchise mutual”, helped to set up RIMANSI, their apex body, supporting establishment of new MI Mutuals
- **Today, 21 Microinsurance Mutuals** cater for approximately 3 million policyholders and their family members, the group holding more than 60 % of the life market in terms of number of microinsured
- **Two cooperative insurers with significant number of low-income clients** and links to primary cooperatives





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MCCOs in the Philippines (4) Challenges ahead

- **Sustain growth of MI-MBAs:** 32 % growth between 2012-2013
- **Expand non-life insurance:** Mutuels confined to life business, e.g. CARD MBA started a joint venture with commercial microinsurer
- **End informality:** Some cooperatives are still running self-insurance schemes for members; government took up formalization process again in 2015; four authorities involved.

Options to formalize:

- Group policy of commercial or cooperative insurer
- Become an agent
- Establish new MI-MBA, or join a MI-MBA
- Apply for commercial or cooperative license (reduced CAR when 50 % of business in microinsurance)





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6a. Discussion: questions and contributions

The IAIS is interested in hearing from members regarding the challenges supervisors face:

1. Formalisation:

- Experiences with the way MCCOs, or each of these organisational types, are regulated in jurisdictions.
- Are there differences in level of supervision and licensing?
- What relevance is the nature of activities and class of business?
- What is the relevance of the scale of the business?

2. Governance:

- Experiences in the way MCCOs are treated with respect to governance.
- How are bodies for members' representation treated from a governance perspective?
- How are fit and proper criteria applied?





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6b. Discussion: questions and contributions II

3. Financial requirements:

- Experiences with solvency and other financial requirements.
- What exemptions are there for MCCOs?
- How are typical mutual characteristics treated e.g. additional premium levying, members' accounts?

4. Reporting:

- Difference in reporting requirements compared to stock companies.

5. Group aspects:

- Regulatory treatment of bigger mutual based groups.
- MCCOs expanding into more than one jurisdiction.
- The potential of apex organisations to leverage supervisory arrangements.
- Additional group issues.





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