

Report of the 9th A2ii – IAIS Consultation Call

Mutuals, Cooperatives and other Community-based Organisations (MCCOs)

26 March 2015



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The A2ii consultation calls are organised in partnership with the IAIS to offer a platform for supervisors to exchange experiences and lessons learnt in expanding access to insurance.¹ **This call focused on the regulation and supervision of mutuals, cooperatives and other community-based organisations (MCCOs).** For the first time, four calls were hosted in different time zones and languages to reach supervisors the world over: two in English, one in Spanish and one in French.

The calls were hosted by the A2ii Secretariat and were supported by **Peter van den Broeke**, IAIS Secretariat (English calls), **François Tempé**, Insurance Supervisor at Prudential Supervisory and Resolution Authority (ACPR) of France and IAIS regional coordinator for francophone supervisors (French call) and **Martina Wiedmaier-Pfister**, Policy Specialist Inclusive Finance (Spanish and English calls). **Andrea Camargo**, Head of Regulatory Affairs and Consumer Protection for Central America at Micro insurance Catastrophe Risk Organisation (MiCRO) provided country case studies on Peru and El Salvador on the Spanish call, **Luc Noubissi**, Senior Insurance Specialist at CIMA on the CIMA region during the French call and **Prof. Fatta Bahadur**, K.C., Chairman Insurance Board Nepal, on the English call. Further country experiences were shared by Peru and the Philippines.

Why focus on MCCOs?

A diverse range of organisations are commonly described as MCCOs, including mutuals, mutual benefit organisations, cooperatives, friendly societies, burial societies, fraternal societies, community-based organisations, risk pooling organisation and self-insuring schemes.

The main factor that sets MCCOs apart is the fact that they are member-owned, which implies principles of democracy and solidarity. They are formed to serve a defined group and purpose and the membership has an entitlement to profits. This enables MCCOs to overcome geographic, cultural, business model, service and product design challenges other more conventional insurers might not be able or willing to in order to provide insurance to low income population.

In addition to most MCCOs being risk carriers, some also provide administrative, educational and distribution services; therefore not all MCCOs playing a role in insurance need to be underwriters per se.

MCCOs fulfil an important role in inclusive insurance markets. As outlined in the 2010 [IAIS Issues Paper on the Regulation and Supervision of Mutuals, Cooperatives and other Community-based Organisations in increasing access to Insurance Markets](#), their member-based nature also raises a number of issues that may require a dedicated regulatory and supervisory response. The IAIS, under its Financial Inclusion Working Group, has formed a drafting group to draft an Application Paper on MCCO regulation and supervision in inclusive insurance. This call was organised to help support the drafting group as it gears up for its work and to help provide important insights into what the most recent considerations and country experiences have been, as well as what the most important topics with regard to MCCO regulation and supervision experienced in different countries currently are.

¹ The next consultation call will take place on May 21st and will look at actuarial approaches to inclusive insurance. All upcoming call dates are reflected on the [A2ii website](#). IAIS - A2ii are keen to receive topics to be addressed during future calls. Please share any issues related to regulation and supervision supporting inclusive insurance markets that you would like to see addressed to the following [link](#).

Dealing with a diverse set of mutuals: the case of CIMA

Mutual entities fulfil an important risk management role at community level in the CIMA region. Types of organisations include savings and credit mutuals, cooperatives, village savings and credit associations, mutual health organisations and community groups such as ethnic and cultural associations, religious associations and others. For example, there are a number of mutual networks playing an important role in microfinance in Burkina Faso, Mali, Cameroon and Togo. Tontines – types of informal investment and solidarity based associations - are deemed to circulate more than USD 380 million of money in Cameroon. There are also some faith-based financial organizations, at a nascent stage.

In 2009, the Council of Ministers in the West African Economic and Monetary Union adopted regulations regarding social mutuality in the union. This was followed by broader microinsurance regulations in 2012, aimed at improving the enabling environment for mutuals alongside the facilitation of microinsurance provision by commercial insurers.

The regional insurance supervisor (CIMA) has recently launched a number of projects aiming to improve the regulatory environment for MCCOS, especially by eliminating the existing conflicts in laws, regulations and competencies. There is also a need for capacity building of stakeholders in order to enhance governance of mutual entities, hence develop good practices in conduct of business.

What are the most pertinent regulatory and supervisory considerations?

Varying approaches to the regulation and supervision of MCCOs apply across countries. The challenges supervisors are facing depend on the jurisdiction, the organisational forms present and other country-specific characteristics such as the structure of the financial and cooperative system.

In countries where MCCOs are present, or intended, the key question is: *what is an effective supervisory² regime that will encourage the expansion of insurance provided by these organisations to the low-income market, while at the same time minimising failures that may affect consumers and introduce instability in the system?*

Some countries face a challenge in integrating MCCOs into the formal insurance sphere. Others face the threat of regulatory arbitrage if the current regime favours MCCOs vis-à-vis commercial insurers, while yet others may want to incentivise and nurture MCCOs given their role in reaching the rural and low-income market. MCCOs may potentially require a different supervisory response due to the differences in their nature, the position they assume in a given insurance market, and their number, size and status in the market.

Where formalisation is concerned, the [IAIS Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets](#) recommends that all entities that act as insurers should be subject to licensing. Thus, there is a clear formalisation imperative. 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 (IAIS AP 2012)”.

² Supervision refers to both regulation and supervision. Supervisors include regulators (s. IAIS Insurance Core Principles, p.4).

Where are supervisors seeking additional guidance?

1. Formalisation:

- What differences should be allowed in the level of supervision and licensing between MCCOs and conventional insurers? For different types of MCCOs?
- What is the relevance of the nature of activities and class of business?
- What is the relevance of the scale of the business?
- 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?

2. Governance:

- What differences in board and ownership structures should supervisors allow for?
- How are bodies for members' representation treated from a governance perspective?
- How are fit and proper criteria applied?

3. Financial requirements:

- What options and challenges might MCCOs have in raising capital?
- How might guarantee funds be allowed as transitional instruments until capital is built; as well as capital requirements during transitional phases?
- What exemptions are there for MCCOs?
- How are typical mutual characteristics treated e.g. additional premium levying, members' accounts?

4. Group aspects:

- Should there be different regulatory treatment of bigger mutual based groups?
- How should supervisors deal with MCCOs expanding into more than one jurisdiction?
- To what extent can supervisors leverage off apex organisations? What additional group issues should be considered?

5. Others:

- **Reporting:** Should differences be allowed for in reporting requirements compared to commercial insurers?
- How should **demutualisation** or licensing of a cooperative insurer as commercial insurer be dealt with?

What can we learn from country-level experiences?

What came out clearly on the calls is that **informality** is an issue that is not always easily visible to insurance supervisors. Cooperatives or other mutuals often have informal insurance schemes that are difficult for insurance supervisors to identify or monitor, or there is no legal environment for MCCOs in insurance. Therefore, strategic considerations are left to insurance supervisors on how to go about formalisation.

The Philippines provides an example of how the supervisory authority tackled the formalisation challenge in its jurisdiction:

Growing an inclusive market and responding to informality: the case of the Philippines

In the Philippines, mutual benefit associations (MBAs) are recognized in the insurance law since 1974. Since 2006, a special regulatory dispensation created the Microinsurance MBAs, requiring a minimum of 5,000 members, reduced operations (only life), and a lower guarantee fund that can be built over time.

The 2010 microinsurance regulatory framework saw further measures to address informality in the microinsurance space. An important component has been inter-agency cooperation between the Insurance Commission, the Cooperative Development Authority and the Security and Exchange Commission. Central Bank developed their own approach to allow Rural Banks to operate as agent. Thus, where cooperatives are concerned, it was recognized that the authority with functional oversight over insurance provision, the Insurance Commission, needs to work together closely with the authority overseeing cooperatives from an institutional point of view.

The current regulatory framework allows four options for formalisation: (i) obtaining a group policy from a commercial or cooperative insurers; (ii) becoming an agent for a commercial or cooperative insurers; (iii) establishing a new microinsurance (MI)-MBA or by joining an existing MI-MBA; or (iv) applying for a commercial or cooperative license. For commercial insurers, a reduced capital adequacy ratio applies if at least 50% of the business is in microinsurance. The representatives of the Insurance Commission Philippines emphasized that the process in the Philippines has taken several years, and is still ongoing.

There are two Cooperative Insurance Societies (CIS) with a significant number of low-income clients and links to primary cooperatives.

The MI-MBAs have been a prominent driving force for microinsurance, showing commercial insurers the potential of microinsurance. In particular, CARD MBA, the first to be licensed in 2001, fulfilled an important role as “franchise model” for nascent MI-MBAs. The technical assistance arm formed under its auspices, RIMANSI, continues to play a strong role as technical service provider. Today, 22 microinsurance MI-MBAs cater for more than three million policyholders and their family members, holding more than 60% of the life market in terms of the number of microinsured. MI-MBAs saw 32% growth between 2012 and 2013.

Challenges remain including how to sustain the current high levels of growth, how to expand the role of MI-MBAs, which is currently confined to life business into the non-life market, and the remaining informality of some NGOs and cooperatives still running self-insurance schemes. Government started to reengage on the formalisation topic in 2015 by a multi-agency Task Force led by the Department of Finance /National Credit Council that collects information across agencies.

Other countries also have plans for formalisation. In Kenya, for example, regulation is being developed to formalise the entire sector dealing with microinsurance, including savings and credit cooperatives.

The discussion on the calls indicated that having the required **capacity to regulate** many, often small, MCCOs is a significant challenge for supervisors. The potential role of apex structures was stressed here again. The capacity of the supervisor to create a legal framework and supervisory structure for a new type of insurer was highlighted as a limiting factor in Latin America, where MCCOs generally do not play an important role, despite significant potential.

Another challenge is the fact that MCCOs might not be under the authority of the insurance supervisor, but **under another authority** such as the cooperatives regulator. This is exacerbated where the legal framework is insufficient to deal with insurance provision by MCCOs or where supervisory systems find it difficult to adjust. Nepal is a case in point:

No insurance supervisory mandate for MCCOs: the case of Nepal

In Nepal, cooperatives operate under the Cooperatives Act of 1992 and are regulated by the Department of Cooperatives under the Ministry of Cooperatives and Poverty Alleviation. There are estimated to be more than 31,000 primary cooperatives, many of them savings and credit cooperatives, with more than 4.5 million members. No other mutual forms are provided for. The Insurance Supervisory Board has no authority over the insurance operations of cooperatives. The Department of Cooperatives, in turn, has very limited supervisory capacity and appropriate monitoring mechanisms are lacking. Thus there is no proper supervision of cooperatives, especially when it comes to financial activities of cooperatives. A new Insurance Act is under development that will, amongst others, aim to bring cooperatives self-insuring their members into the insurance regulatory net by granting authority to the insurance supervisor to oversee their insurance activities.

The member-owned nature of MCCOs also creates different supervisory considerations with respect to **governance** and **prudential management**. Peru provides an example:

Governance and financial requirements preventing regulatory recognition of MCCOs: the case of Peru

Peru is estimated to have around 165 saving and credit cooperatives serving at least 1m members and their families. In 1993, regulation was introduced to only allow corporations, no longer cooperatives, to continue to operate as insurers. The main concerns of the Peruvian supervisory authority (SBS) around allowing MCCOs into the insurance field so far have been:

- **Corporate governance:** Who owns the cooperative and are their members able to fulfilling solvency requirements?
- **Capital requirements:** In principle, solvency requirements should be the same for all insurance providers regardless of their institutional form, because they are all managing the public's funds. Thus there would not be room for a proportionate space for MCCOs. However, a precedent has been set in the banking sector, where different financial requirements apply for MFIs than traditional banks.

Recently, SBS has started to look into the potential of allowing mutual types of providers, as commercial insurers are reluctant to cater for the low-income potential market and remote regions of the country, but large insurers might be interested to partner with mutual organisations that are reaching into these markets. The SBS recognises the need to investigate the possibility for including MCCOs as insurance providers and to adjust the corporate governance and financial requirements to the membership nature of such institutions.

Where **financial requirements** are concerned, the example of the Philippine MI-MBAs is worth mentioning. MI-MBAs are allowed to build their capital over time, and have a generally lower requirement as they are only allowed to offer microinsurance products (simple products, of up to approximately 10.000 US\$ cover).

Pakistan also provides an example of a pragmatic approach to supervising MCCOs in a proportionate manner:

Prudential supervision in the absence of solvency requirements: the case of Pakistan

15 years ago, when a new insurance law was introduced in Pakistan, any new licenses for cooperatives and mutuals were disallowed. However, existing mutuals were allowed to continue. Today, two mutuals are still operating in the market. However, they do not have any paid-up capital requirements. There is no process or guidelines to measure their solvency and they operate in a grey area without sufficient measures to adequately track and enforce solvency.

If there are no capital requirements or solvency rules, how can the prudential regime be maintained? The regulator, the Securities and Exchange Commission of Pakistan (SECP) conducts strong checks on consumer protection. They must adhere to a code of conduct and all insurers must follow the sound and prudent management guidelines issued by the SECP, regardless of the institutional form. Thus, although there are no solvency and capital standards for the two mutuals, the same prudential regulatory tools and supervisory practices as for commercial insurers are applied to manage prudential risks.

The discussions furthermore pointed to a need for **flexibility and proactive development of new aspects** of regulation where the framework is not yet complete. For example, in the absence of any formalised framework on products provided by mutuals in the Philippines, the Insurance Commission as an interim measure applies the same product related measures that apply to insurance companies to MBAs, so as to allow mutuals issuing products akin to those provided by insurers to do so, as long as they comply with the conditions set for insurance companies. In parallel, they are actively reviewing the product regulatory framework for MBAs and will issue a new circular to cover such issues.

Lastly, it is important to note that, in some countries, the institutional form of MCCO insurers may simply **not be a current issue** for supervisors. In Macedonia, for example, the market is relatively small. All providers of insurance must be licensed by the insurance supervision agency and there is currently no provision for MCCOs as institutional form. In other countries, MCCOs are allowed as institutional type, but **without any special dispensation due to their nature**. Neither is there any strong imperative to create a space for such entities, given the size and nature of the insurance market. In the USA, mutual insurers are allowed, but the various prudential and market conduct regulatory requirements for mutual companies are no different than those for commercial insurers. This is also the case in El Salvador:

Meeting full regulatory requirements: the case of El Salvador

In El Salvador, the general insurance law of 1997 recognised MCCOs as insurance providers. As the insurance companies, MCCOs are supervised by the Superintendencia del Sistema Financiero (SSF). When the insurance law was enacted a transitional approach was applied for MCCOs as they were allowed to adapt their operations over a period of two years to reach full compliance.

What are the key takeaways?

Increasing relevance of MCCOs: A number of jurisdictions that do not currently allow MCCOs are thinking of trying to encourage their establishment in order to increase access to insurance for low income consumers and/or to formalise informal providers.

Country realities vary substantially: Some countries are looking to develop the MCCO market, recognising the potential of an organisational form of insurer that is member-governed. Other may face a situation where there are thousands of mutuals or cooperatives running informal insurance schemes, which creates a formalisation imperative. Some treat MCCOs in the same way as commercial insurers.

Formalization pressure: When MCCOs are providing insurance while being only regulated by a different (non-insurance) supervisory authority, the insurance supervisor might need to step in to ensure appropriate oversight occurs.

Supervisory capacity influences the approach taken: Supervisors generally have the capacity to supervise a limited number of insurers and would be challenged to formalise a large number of new entities. If a strategic decision is taken to formalise or promote the MCCO-type institutions, a country may need to go back to the drawing board to redesign the supervisory approach.

Lower entry barriers: Under a proportionate approach, MCCOs may benefit from adjusted requirements in certain areas such as governance and solvency. This is generally coupled with restrictions on the type and size of risks these entities are allowed to underwrite. However, several supervisors highlighted the challenges involved in determining what capital requirements to set for MCCOs or one specific type of MCCO.

It is clear from the discussions that these are important strategic and operational questions facing many jurisdictions. The MCCO Application Paper drafting group will pay close attention to such matters in embarking on the development of application guidance for the regulation and supervision of MCCOs. To inform the paper, all supervisors are invited to share experiences or questions on these topics. Please contact peter.vandenbroeke@bis.org.



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