



On the Regulation and Supervision of Mutuals, Cooperatives and other Community-based organisations in increasing access to insurance markets

Craig Thorburn
Senior Insurance Specialist, The World Bank
Policy Advisory Consultant, CGAP
cthornburn@worldbank.org
+1 202 473 4932 or +1 202 470 6012
Skype: craig_thorburn



Background

- June 2007: IAIS Issues Paper on Microinsurance issued including a review of ICPs against access to insurance issues.
 - Key finding: ICPs are adequate but implementation can be conducive to access to insurance or destructive depending on how it is actually done.
 - Key action: More work is needed to understand and elaborate the regulatory response regarding MCCOs given that they have a potentially very important role in access to insurance services for those that are underserved.
 - September 2008: Synthesis of country studies published.
 - Survey of mutuals
 - IAIS is reviewing ICPs at the moment, but the paper uses the current version as a basis because:
 - It is an issues paper;
 - ICPs review carries forward existing material to an extent; and
 - Future work of the JWG will focus on guidance against the new ICPs.
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WHAT IS AN MCCO?



What is an MCCO?

- Many different names and forms
 - From the formally registered insurers to the informal
 - From the legally structured to loose collectives
 - Paper is intended to be relevant even for organisations with no formal legal form
 - Names and structures vary by jurisdiction, but the paper speaks to all forms
 - Paper does not include takaful
 - Paper is about mutuality and not about size
 - Proportionate regulation and supervision will be important
 - Supervisory resources will be critical so methods may need to be adjusted
 - Transitional arrangements may be critical when formalising the informal if it represents a large number of entities.
 - Paper recognises both insurance as the primary purpose and those where it is very much secondary or beyond.
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Key defining characteristics

- **Member ownership:**
 - The beneficiaries of the services provided by the organisation are, by virtue of their membership, also owners or have similar powers to those held by owners in shareholder organisations.
 - Footnote: not necessarily identical to shareholders for example as ownership is not usually tradable.
 - **Democracy:**
 - Members form the ultimate assembly of the organisation, the ultimate decision making body, including electing the board.
 - **Defined purpose:**
 - Having a common goal, purpose, or characteristic.
 - **Solidarity:**
 - A concept of “all being in it together” to help each other achieve the common purpose.
 - **Entitlement to profits:**
 - profits (surplus) and losses (deficits) accrue to members.
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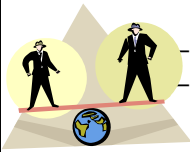
Key Premise

- It is these aspects of the organisational definition that give room for and should be the basis for any different regulatory, supervisory, or policy level approach.
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Membership

- When members are also owners, or have similar roles, it can be argued that the interests of shareholders and policyholders do not face the same conflicts that a shareholder company has to deal with.
- As a result, obligations on insurers regarding conflicts of interest, and requirements to address them, can be an unnecessary compliance burden.
- However, in some cases,
 - not all policyholders are members so those that are not need to be considered.

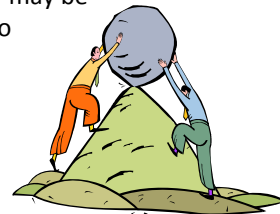


- Not all members are in the same class of membership
- Some interests compete between groups of members anyway such as
 - those with savings products compared to those with risk only products, or
 - those who have insurance and those that do not in an organisation formed for some other main purpose



Democracy

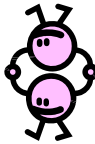
- Member democracy, it can be argued, ensures that the interests of the organisation are aligned to the interests of the member beneficiaries rather than ultimately reflecting the profit motive of shareholders.
- As a result, some regulatory obligations designed at providing beneficiary protection can seem burdensome and unnecessary.
- However, in some cases, the strength of democracy may be less than perfect and relies on effective processes to ensure members are able to exercise their rights.





Solidarity

- Solidarity, it can be argued, means members benefit from the collective risk-pooling and, on the other hand, underwrite the performance of the pool collectively.
- Closely linked to membership, democracy, defined purpose in particular.
- Particularly relevant to ICP 23 on capital where the potential for calls on members is considered.



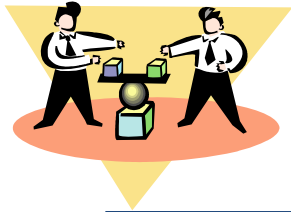
Defined Purpose

- The defined purpose may be directly related to insurance or may not





Entitlement to Profits



WHAT ROLE DO THEY (OR CAN THEY) PLAY?



The Insurance Value Chain

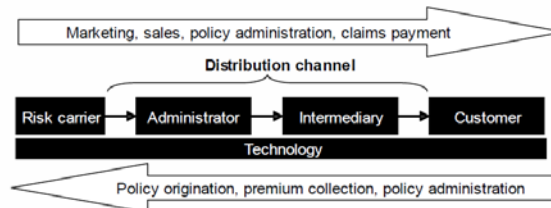


Figure 3: Insurance value chain

Source: Chamberlain, Bester et al, 2006, quoting Leach, FinMark 2005.

- MCCOs can play some or all roles.
 - Regulatory policy and regime should recognise each of these potential roles and cater for cases for each role, not just the complete package or the risk carrier role.



Challenges to access

- **Geographic:** Those in remote locations may be far from conventional “city based” conventional insurance markets.
- **Cultural:** Insurance managers and some client groups come from very different backgrounds leading to a complete misunderstanding of the market and its needs.
- **Business model, Service or Product design:** Sometimes apparently minor requirements can be insurmountable barriers to providing product value for particular market segments.
- **Socio-economic:** for example, the belief that formal insurance is for formal markets.
- **Value challenges:** some communities are skeptical and have difficulty seeing the value of insurance services.



ICP BY ICP REVIEW



ICP 1 to 5 – Supervisory Arrangements

- The law defines insurance and who can provide it: If MCCOs are not recognised in legislation this may mean that they are limited in their ability to operate in the market
 - Shared supervision and other functions might be more likely with MCCOs raising need for a focus on coordination and cooperation.
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ICP 6 – Licensing

- Can MCCOs perform functions (risk carrying and distribution most relevant) that might be required under the law?
- But to include them, other licensing aspects will need attention:
 - Obligations on boards
 - Assessing ownership structures given mutuality
 - Fitness and propriety
 - Capital
- Coordinating with other agencies when issuing a license might need effort.
- Potential for limitations on licenses may be a useful tool.



ICP 7 – Suitability of Persons

- Fitness of boards needs to consider the way they are appointed / elected. Can steps be taken to ensure access to expertise?
- Democracy may mean that continuity is difficult to maintain.
- Assessing the ability of owners to contribute capital is different in a shareholder organisation.



ICP 8 - Changes of Control

- Control can be exercised and changed in a MCCO in different ways.
 - Demutualisation as a means of change is also important.
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ICP 9 – Corporate governance

- Might require special rules especially when giving credit for democracy. That is, credit with conditions.
 - Effective functioning of the board will also need careful supervisory scrutiny
 - Control being gained by aggressive outsiders who usep the democratic processes is another issue to be careful about.
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ICP 11 to 17 – On-going Supervision

- Most critical are
 - Wind-up and exit: providing a path for demutualisation;
 - Group supervision: some aspects of group supervision are relevant when considering the role of ‘apex organisations’
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ICP 23 – Capital Adequacy & Solvency

- Equity in the treatment of capital is more important.
- Treatment of the “estate” is part of equity.
- Treatment of guarantees by third parties might be considered especially at the start up phase.
- The strength of the capacity for calls on members for capital is difficult to assess.



ICP 24 – Intermediaries

- Issue is whether or not, and how, MCCOs can act as intermediaries.
 - May also include a claims management or premium collection or other administrative function.
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ICP 25 – Consumer protection

- May present an opportunity to rely on solidarity, convening power, and democracy.
 - Perhaps conflict of interest between owners and policyholders takes on a different context.
 - Complaint resolution systems will also function differently usually.
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ICP 26 – Information Disclosure and Transparency

- For democracy, this is a key challenge.
 - To place more importance on it, there may be a need for some specific or clearer guidance.
 - Assessing market wide information might also require careful consideration of any proposals for relief in reporting. In fact, MCCOs might benefit from understanding well how the total market analysis forms part of their own effective management.
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END
