

Report of the 7<sup>th</sup> A2ii – IAIS Consultation Call

# IAIS and A2ii activities: opportunity to tell us what you need!

20 November 2014



The A2ii consultation calls are organized in partnership with the IAIS to offer a platform to exchange experiences and lessons learnt in expanding access to insurance. **This call intends to capture input and feedback on the A2ii and IAIS work plan on inclusive insurance.**

The call was hosted by Marike Brady (Executive Director, A2ii), and was supported by Jonathan Dixon (Chairman of IAIS Implementation Committee, chairman of the Governing Council of the A2ii and Deputy CEO: Insurance of the Financial Services Board, South Africa), Rosemarie Henry (Vice Chair of the IAIS Financial Inclusion Working Group and Senior Director, Insurance and the Financial Services Commission, Jamaica), and Peter van den Broeke, Conor Donaldson and Tsuyoshi Saito (IAIS Secretariat).

## Why this call?

The objective of the A2ii is to strengthen the capacity of policy makers and supervisors seeking to advance access to insurance markets by promoting sound, effective and proportionate regulation and supervision. The real challenge lies in putting this objective into practice.

For the first time, the IAIS and the A2ii are undertaking a joint process in developing their respective roadmaps to address the challenges faced by supervisors in inclusive insurance. Increasingly, the IAIS is committed to putting more focus on implementation efforts, for instance through the coordinated implementation framework. The A2ii has gained significant insight into the challenges of supporting financial inclusion objectives while ensuring proper policyholder protection and can bring those lessons to bear in the implementation effort.

IAIS members have the best insight into the topic of proportionality and financial inclusion, because they are on the ground, facing these challenges every day. As a consequence, they are best placed to highlight issues and identify challenges. Thus the work the IAIS does through its Financial Inclusion Working Group, together with the A2ii, must be driven from the bottom up to respond to members' needs. This call is the first attempt to proactively reach out to get as broad an input as possible to the IAIS and A2ii work plan around financial inclusion activities.

## What is in the IAIS financial inclusion pipeline?

The IAIS Financial Inclusion Working Group (FIWG) is planning a number of work streams for the coming two years on which members' feedback and inputs are invited:

- 1. Market Conduct and Distribution:** Work is underway on an *IAIS Issues Paper on Market Conduct and Distribution in Inclusive Insurance*, to be finalised in 2015. The need for the paper is clear from the importance of distribution and conduct of business in the financial inclusion space. The way the client is treated is essential to the way people look at insurance, the way they experience insurance, and whether they trust insurance providers. Distribution innovation in the inclusive insurance space (including new technologies, new players in the value chain and new products) challenge traditional supervisory approaches. The A2ii country diagnostics have created a rich source of information on distribution models in inclusive insurance and the consumer protection risks that they give rise to. The Issues Paper will consider the whole distribution chain, but also the product chain, the disclosure of information, design, claims settlement, payments and others aspects such as the use of mobile phone technology and other forms of digital financial services.
- 2. Mutuels, Cooperatives and Community-based Organisations:** This topic is important, as it recognises that bottom-up provision, whereby risk is shared at the community level for mutual benefit, is an important thrust in inclusive insurance. This work stream builds on the [2010 Issues Paper](#) on the topic, which now needs to be updated for the new set of ICPs. The drafting group is hoping to complete its work by the end of 2015.
- 3. Micro-Takaful:** Together with the Islamic Financial Services Board (IFSB), the FIWG has formed a drafting group to transform the existing IFSB-IAIS [Issues Paper in Regulation and Supervision of Takaful](#) (2006) into an Issues Paper dealing specifically with inclusive insurance (micro-Takaful). Micro-Takaful plays an important role in extending inclusive insurance in Asia and Africa. As it requires different structures and processes than traditional insurance, this topic

requires careful consideration by supervisors. The project, under the leadership of the IFSB, has included a member survey on the topic and finalisation is expected by mid-2015.

**4. Actuarial services in inclusive insurance:** The appropriate level of actuarial skills to support inclusive insurance markets is an important topic for supervisors. Earlier in 2014, the International Actuarial Association (IAA) published an [Issues Paper on Addressing the Gaps in Actuarial Services in Inclusive Insurance Markets](#). This initiative has been welcomed by the FIWG and a memo has been drafted on how to join forces with the IAA to move this topic forward. The development of two joint papers by the end of 2016 is proposed:

- In order to define the extent of actuarial knowledge and expertise needed, it is important to understand what a proportional application of prudential standards would look like to facilitate inclusive insurance markets. Thus the first paper will be on the proportional application of prudential requirements, and will include topics such as pricing, provisioning and asset liability management.
- The second paper will then consider how to build the necessary expertise in actuarial services for such a proportional regime, looking at what the appropriate level of knowledge required is in a specific market, how to build that knowledge and skills and how to build in-country structures to facilitate knowledge building (like actuarial associations).

**5. Index-based insurance:** Index insurance, as the work of the World Bank and others shows, is becoming an increasingly important product in making agriculture insurance and related products such as disaster risk insurance more inclusive. With fast growth come new challenges and considerations for supervisors, including project failures and consumer protection concerns. This makes it a timely opportunity for the IAIS, through the FIWG, to consider this topic. A memo detailing the proposed focus has been circulated by the World Bank, which has offered to chair and drive a Task Force on the topic. Work will start early in 2015 and, given the need for extensive consultation, completion is expected at the end of 2016.

## What will the A2ii prioritise over the next two years?

In the last five years, the A2ii has focused on understanding the topics raised in inclusive insurance, by extracting insights from the ground up in the countries where we've done diagnostics and by learning from supervisors through various events. In 2013, we completed a strategic re-orientation to become the implementing partner of the IAIS on inclusive insurance, with the intention of inspiring and supporting insurance supervisors that are ready to promote inclusive and responsible insurance. One of our critical success factors is to provide supervisors with the critical knowledge needed to succeed in their ambitions to enhance inclusion. But we recognise that providing the knowledge is not enough. We also have to help in implementing the knowledge – that is why our second critical success factor is to enable the effective use of that knowledge.

A number of planned activities are linked to each of these key focus areas:

<b>We provide the critical knowledge policymakers &amp; supervisors need</b>	<b>ACTIVITIES 2015 -2016</b>
<b>We know what knowledge is needed</b>	<ul style="list-style-type: none"> <li>• Develop (sub-)regional implementation plans</li> <li>• Implement the “Self-assessment” and “Peer Review on Financial Inclusion”</li> <li>• A2ii-IAIS Consultation Calls</li> </ul>
<b>We generate critical knowledge</b>	<ul style="list-style-type: none"> <li>• 3 Diagnostic tools on SMEs, PPP and mobile insurance</li> <li>• Policy notes on topics to be determined through the IAIS process</li> <li>• 3 case studies and implementation notes on proportionality in practice</li> <li>• Impact methodology and synthesis</li> </ul>
<b>Our tools are user-friendly</b>	<ul style="list-style-type: none"> <li>• Expand knowledge sharing mechanism</li> <li>• Transpose A2ii/IAIS financial inclusion training module into E-learning environment</li> <li>• Translations</li> </ul>

<b>We enable the effective use of our knowledge products</b>	<b>ACTIVITIES 2015 -2016</b>
<b>Supervisors ask for our knowledge &amp; support</b>	<ul style="list-style-type: none"> <li>• 4 training programs with Toronto Centre</li> <li>• 4 training programs with FSI</li> </ul>
<b>Our modes of delivery for supervisory support are highly effective</b>	<ul style="list-style-type: none"> <li>• Matchmaking mechanism between donors and supervisory capacity building needs</li> </ul>
<b>We have experienced experts available</b>	<ul style="list-style-type: none"> <li>• Operate pool of qualified experts</li> <li>• 4 Consultative Forums with IAIS and MIN</li> </ul>
<b>Supervisors implement inclusion-friendly regulation</b>	<ul style="list-style-type: none"> <li>• 2 Expert cadre events to distill lessons learned in supervising inclusive insurance markets</li> </ul>
<b>A2ii generates critical evidence for IAIS standard setting</b>	<ul style="list-style-type: none"> <li>• Execute (sub-)regional implementation activities</li> <li>• Participation and contribution to IAIS and global meetings as an expert on inclusion</li> </ul>

Key to all our other activities is the need to understand what knowledge is needed. We have found that we cannot only ask this question at a global level, but that we really need to understand this at a regional level – what the gaps are that we see in implementing the ICPs in order to enhance inclusion, what the topics are that supervisors at a regional level struggle with and seek support for. We then have to generate that knowledge and make sure that the knowledge is user-friendly and accessible. Fulfilling our true value proposition

to supervisors furthermore requires us to be at the forefront of innovations in the field, such as index-based insurance, digital financial services, the difference between mass- and microinsurance, and the use of new intermediaries in distribution.

Another request from the IAIS is that we help prepare case studies on proportionality in practice, addressing how we move from policy to implementation, how we implement global guidance.

Beyond case studies, we want to expand on our knowledge sharing mechanisms – how can supervisors learn from one another? Our impression is that this is one of the most successful formulas for knowledge generation and sharing, and the consultations calls have shown us how important it is to keep those communication channels open.

Furthermore, there is an imperative to understand whether policies implemented to enhance inclusion have the desired effect, by looking at the countries that implemented the first, second and third generation microinsurance regulatory frameworks globally.

Equally important to generating knowledge is effectively disseminating such knowledge. This will be done through the coordination implementation framework of the IAIS, where the A2ii will implement regional capacity building plans and use policy seminars and consultative forums to share knowledge.

Lastly, a big focus will be on understanding the regional and sub-regional capacity building needs and matching these with the donor support that is out there.

## Will these activities address supervisors' needs?

The core purpose of the call was to test whether the proposed work plan resonates with supervisors.

- Do these areas align with your needs?
- What did we miss?
- What is the relative priority of the proposed activities?

The discussion reaffirmed the value of the topics identified by both the FIWG and the A2ii.

Specifically, the need for a better understanding of the market conduct and other regulatory considerations raised by new distribution channels was emphasised. The importance of peer exchange and learning was also confirmed, including on new topics such as digital financial services.

Lastly, the need was identified to also consider prudential requirements more broadly than in the context of actuarial services, including topics such as corporate governance, capital and risk management. As supervisors move towards a risk-based approach, this is a front of mind topic.

Going forward, the A2ii and IAIS FIWG will identify how to incorporate these inputs, as well as elicit inputs on a more continuous basis, to feed into our work plans.



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