

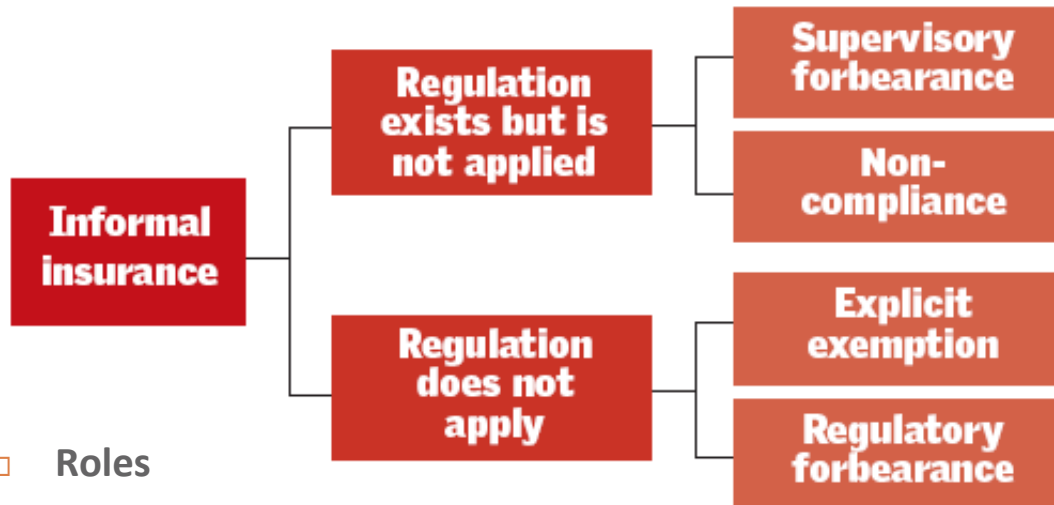


Informal insurance

Presentation at FSI Microinsurance meeting
Basel, 7 July 2010

Defining informality

- Not regulated for the purposes of providing financial services
- **Definition of insurance**
 - Guaranteed vs non-guaranteed benefits
 - Excluding benefits-in-kind
 - Excluding particular provider or product (e.g. labour unions, funeral parlours, etc)
 - Gaps in definitions (e.g. health insurance)



- **Roles**
 - Underwriting/risk management
 - Intermediation

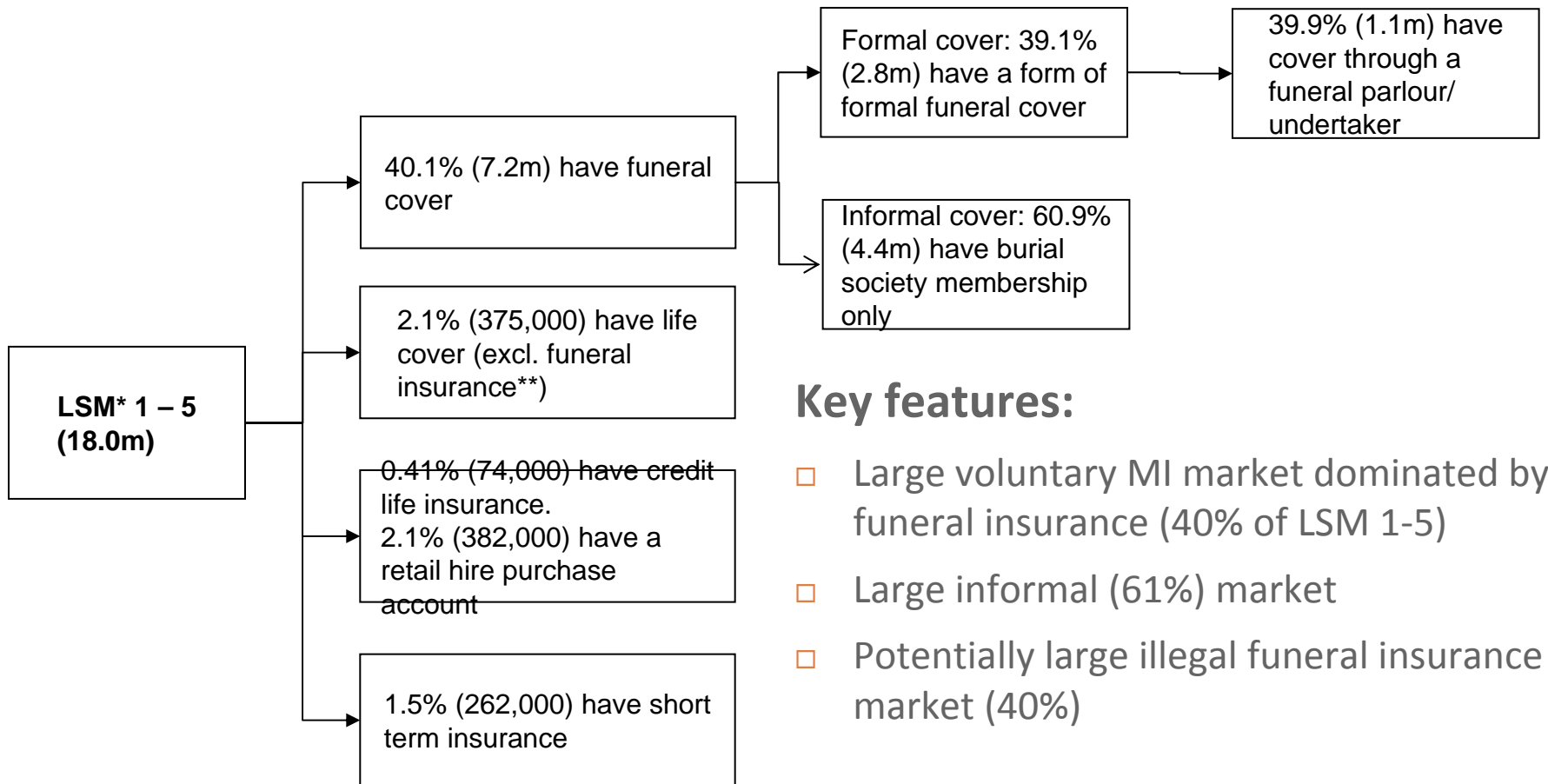
- Informal insurance market not necessarily illegal

Examples

- **Uganda & Zambia:** Health insurance provided by unregulated players (HMOs, Hospitals)
- **India (20%*):** Health schemes by NGOs and cooperatives not regulated by IRDA
- **Philippines (41%*):** Cooperatives self-insuring
- **Ethiopia:** Iddir and self-insuring MFIs
- **Brazil (60%*)/Colombia (52%*):** In-kind benefits by funeral parlours excluded from insurance definition
- **Kenya:** Insurance definition excludes benefits-in-kind (including funerals), benefits by labour unions, employee associations and friendly societies
- **South Africa (46%*):** Burial societies and self-insuring funeral parlours

* estimated percentage of microinsurance provided by informal providers (number of policyholders)

South African microinsurance market



Key features:

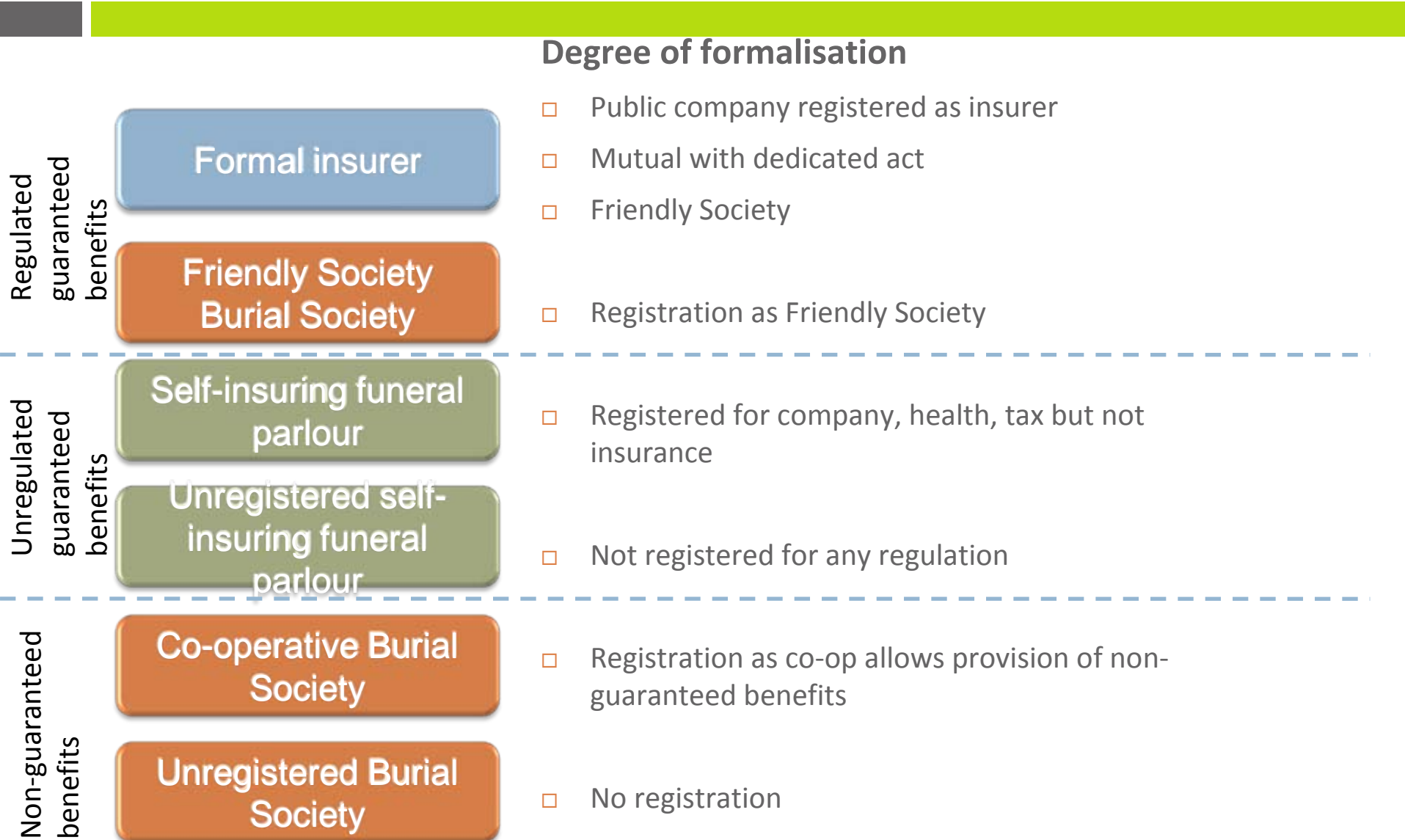
- Large voluntary MI market dominated by funeral insurance (40% of LSM 1-5)
- Large informal (61%) market
- Potentially large illegal funeral insurance market (40%)

Source: Eighty20 calculations based on FinScope 2007 (using weightings derived from the Census 2001)

* The definition of LSM used is according to the 2005 algorithm

** Does not imply that respondents in this segment do not have funeral insurance, but that they have a formal life policy

Hierarchy of formality



Policy perspectives on formalisation

- **Insurance supervisor**
 - Consumer protection: Risk of abuse and failure
 - Industry reputation
 - Financial inclusion and existing needs being met
 - Increased competition
- **Insurance industry**
 - Unlevel playing field
 - Access to aggregators if formalised
 - Reinventing insurance for bulk of market
- **Revenue services**
 - Tax revenue
- **Health/local authorities**
 - Public health risks
- **Trade and industry**
 - SME development
 - Local economic empowerment
- **Fiscal policy**
 - Reduce state burden – growing private welfare provision

Should I formalise?



- What is the risk to consumers?
- Do I have the capacity to supervise?
- Are there strong political imperatives?
- Will continued informality undermine development of the market?

Formalisation options



“you cannot bludgeon people into the formal economy, you have to entice them”

Formalisation options

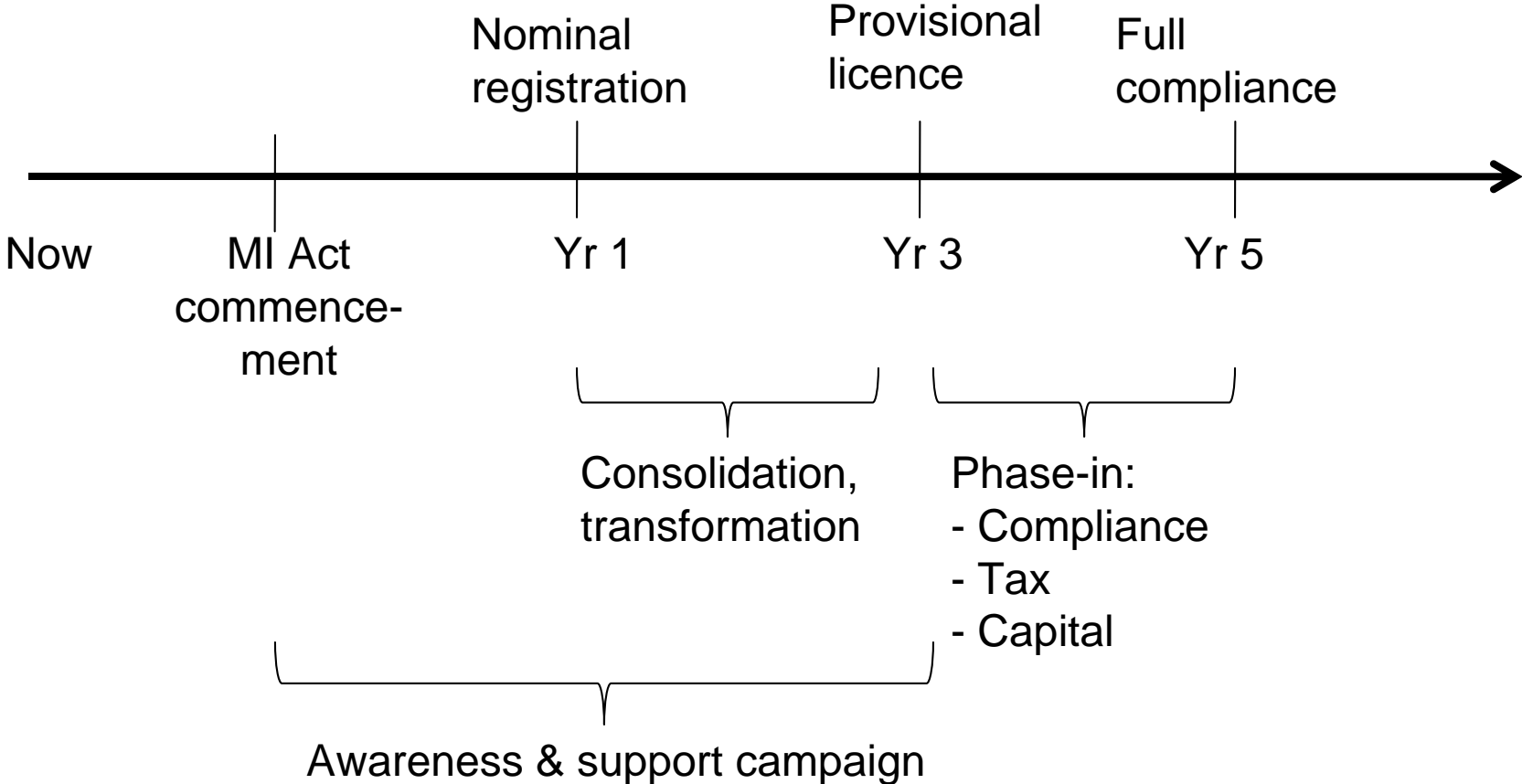
- **Accommodate:** creating space for different institutional types
- **Exemption:** E.g. for specific types of institutions (requires monitoring)
- **Tiering:** proportional regulation
- **Graduation:** Grow into regulatory requirement. Could utilise mechanisms such as cell captives.
- **Fix gaps:** close down regulatory loopholes
- **Formalise the clients:** Encouraging clients to use formal services

Formalisation process

- Understand the market and the scope of the problem
- Define the timescale
- Create clear evolution path to get from informal to formal
- Carrots & sticks
 - ▣ amnesties
 - ▣ iconic prosecutions
- Compliance support
- Political support

Formalisation process

Illustration:



Leverage the market



- **Delegated supervision** - making regulated institutions partially responsible for oversight of new players, especially in intermediation
- **Market mechanisms** to incentivise formalisation (such as microfinance rating agencies) can play a supportive role

Leverage the state

Essential to coordinate with other public players:

- Revenue authorities
- Central bank – payment systems
- Health authorities
- Trade and industry
- Law enforcement
- Telecoms regulator
- Utilities regulator



Thank you!

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