# Access to Insurance Initiative

**A global programme for sound regulatory and supervisory frameworks**

## 2nd Consultation Call: 24 April 2014

**"Technical innovations in insurance distribution and regulatory implications"**

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access to insurance initiative

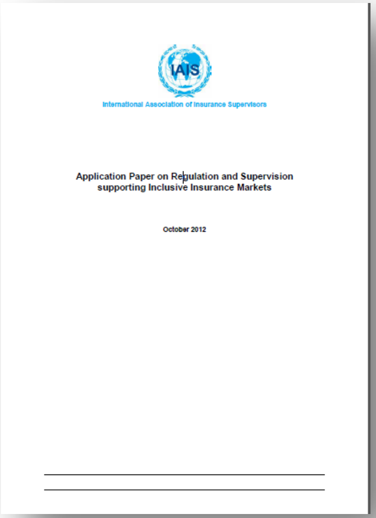
IAIS INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

## Agenda

1. IAIS guidance on innovations
2. Technology and business models in insurance
3. How do banking supervisors deal with oversight of mobile financial services?
4. What can go wrong in technical innovations? Lessons learned from Eco-life m-insurance
5. Concluding remarks

# 1. IAIS Guidance Application Paper

- **Insurance should be formal**: e.g. pilots need to be registered
- **Innovations to be facilitated:** permit innovative approaches while protecting the consumer
- **A proportionate approach is recommended:** tailored to the risk
- **Roles and responsibilities need to be clear**: supervisory cooperation


International Association of Insurance Supervisors

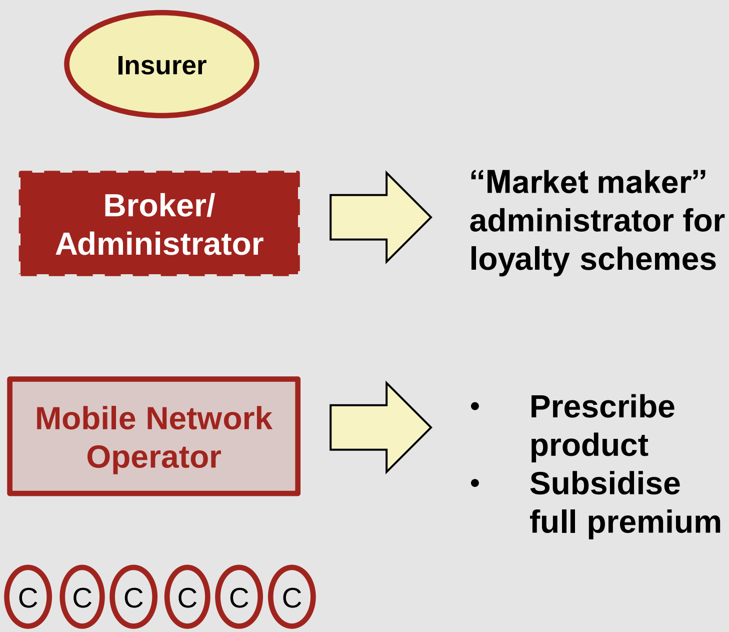
Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets

October 2012

# 2a. Emerging mobile microinsurance business models:

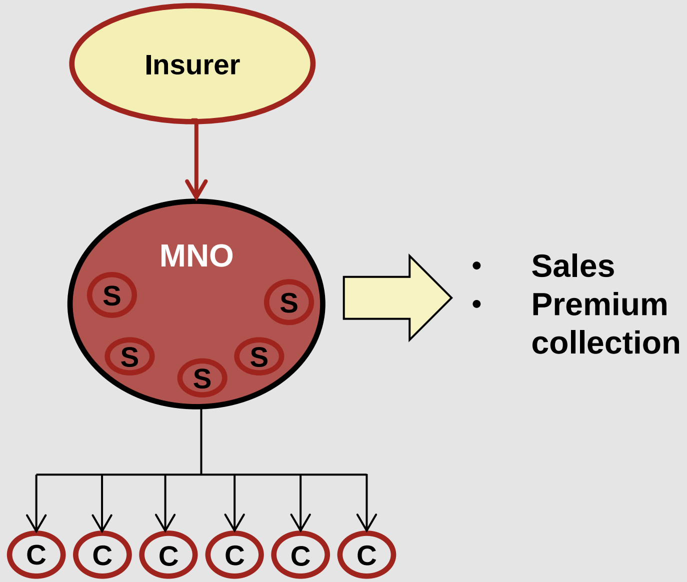
## Business Model: Auto-Enrolment

3rd party purchases insurance on behalf of a pre-determined group of people




## Business Model: Proxy sales force

Insurance sold by a non-insurance entity to existing clients



# 2b. Emerging risks and regulatory responses: Policy awareness and aggregator risk

| Risk | | Risk Drivers | | Observed responses |
|---|---|---|---|---|
| **Policy Awareness Risk**<br>Risk that the insured is not aware that he or she has an insurance policy and is therefore unable to lodge a claim should the risk event occur | → | **The absence of a specific sales action** | → | • **Require voluntary sign-up**<br>• **Require post-sales communication** |
| **Aggregator Risk**<br>The risk of reduced client value and inappropriate products being sold to clients | → | • **Power imbalance**<br>• **Financial interests of aggregator** | → | • **Cost disclosure**<br>• **Claims and expense ratio reporting**<br>• **Public disclosure of partnership agreements** |

# 3a. How do banking supervisors deal with oversight of mobile financial services (MFS)?

Developing and improving regulatory risk-based approaches to MFS are now a priority due to the rapid development and wider deployment of both bank and non-bank MFS models.

Adoption of effective supervision and oversight procedures is key.

The main responsibility of supervision (report compliance & monitoring) – ensure that MFS products comply with the corresponding regulatory framework.

# 3b. How do banking supervisors deal with oversight of mobile financial services?

Five Principles Guiding MFS Technology Risk Management

1) Confidentiality
2) Integrity
3) Availability
4) Authentication
5) Non-repudiation

# 3c. How do banking supervisors deal with oversight of mobile financial services?

## With regard to mobile channels, bank supervisors and insurance supervisors need to be concerned with:

- defining the relationships/responsibilities of multiple parties
- disclosure requirements
- consumer protection issues
- Regulatory coordination between Telecom, Banking/Payments Regulators and Insurance Regulators may be necessary depending on the services being offered (i.e. if claims or payments are being made via a mobile money channel).

# 4a. What can go wrong?
# Lessons learned from an m-insurance failure

1. The potential for scale of m-insurance brings significant opportunity to increase financial inclusion as demonstrated by the m-insurance 'sprinters':

1. EcoLife Zimbabwe reached 20% of the adult population in 7 months.
2. Telenor Pakistan reached 400,000 people in 4 months.
3. Tigo Ghana reached almost 1m lives in 12 months.
4. Leo Namibia reached 15% of the adult population
5. Airtel Zambia reached an estimated 2m at launch
6. Robi Bangladesh has reportedly hit 4m clients
7. MTN and Nigeria sign up 100,000 clients a month in Nigeria

2. Yet Ecolife Zimbabwe shows that m-insurance brings new risks. EcoLife launched in October 2010 as a partnership between First Mutual Life, Econet and Trustco, an (unlicensed) technical service provider. In April 2011, due to a dispute between Econet and Trustco over royalties, the scheme was cancelled.

20% of the adult population (1,6m) lost their cover overnight

62% not notified about discontinuation of EcoLife

63% Ruled out use of similar products in future

42% Dissatisfied with insurance

30% Better ways to protect against future problems than insurance

# 4b. What can go wrong? Lessons learned from an m-insurance failure

**3.** At this level of exponential growth, some m-insurance schemes can have market wide impact and may require more ex-ante regulation.

For m-insurance, the business risk framework needs to be extended to include data risk, systemic risk and regulatory backlash risk.

Draft recommendations concerning the regulation of m-insurance:

1. Define the m-insurance product
2. Clarify the policyholder
3. Define the nature of the legal relationship and the responsibilities pertaining to all parties involved
4. Determine whether premium incidence changes the risk profile
5. Assess whether there are appropriate levels of disclosure
6. Clarify consumer recourse options available
7. If you fail, then fail well - creating a living will

## 5. Concluding remarks

- Be ready to regulate
- Cooperate with other supervisors
- Look at client value

**DISCUSSION/Questions:**
Challenges in your jurisdiction?
What works? What does not?

The Initiative is a partnership between:

IAIS INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS
CGAP
BMZ Federal Ministry for Economic Cooperation and Development
FINMARK TRUST Making financial markets work for the poor
International Labour Office
UNCDF
ADB
FIRST Initiative
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