

# Access to Insurance Initiative

A global programme for sound regulatory and supervisory frameworks

## Definition of Microinsurance in Regulation

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Martina Wiedmaier-Pfister  
Michael Hafeman



## Definition of microinsurance in regulation (IAIS Application Paper 2012)

### Qualitative definitions

- Insurance that is accessed by low-income populations, provided by a variety of different entities, but run in accordance with generally accepted insurance practices (which include the ICPs)
- Appropriate for many purposes

### Quantitative definitions

- Might be needed to allow different treatment
- Keep the purpose in mind
- Faulty definitions can have unintended consequences

### IAIS Application Paper sets out criteria



## Criteria for definitions – IAIS Application Paper on Inclusive Insurance Markets (2012)

- Definitions should focus on products, not customers
- Definitions that focus on the providers have the potential to create an un-level playing field
- Definitions that focus on microinsurers should clearly delineate microinsurance business from others and will require a definition of a risk category or product
- Quantitative elements of definitions should be set at the highest possible level
- Quantitative elements should consider the need to align the resulting business profiles with the expected proportionate regulation and supervision
- Would the definition inadvertently exclude target customers, providers, products, or innovations?
- Consider a definition that involves supervisory discretion



## Q1 – What **purpose** will the definition serve?

Is a regulatory definition really necessary?

- To distinguish what is microinsurance from what it is not
- To develop a specific framework for a lower-risk category of insurance
- To provide additional protection for a specific client group

Definitions might have multiple purposes, but each purpose should be known



## Q2 – What **elements** need to be defined to serve the intended purposes?

- General description of what microinsurance is
- Intended client groups
- Business of microinsurance
- Microinsurance underwriter
- Microinsurance agent or distribution channel
- Microinsurance product
- Microinsurance contract



## Approaches taken: **Peru**

- Client: “insurance ...to protect the low-income population from the occurrence of losses”
- Quantitative definition in 2007; abolished in 2009
- Product features:
  - Simplified policy and certificate
  - Minimal exclusions
  - No fees or co-payments
  - Claims payments within 10 days
  - Complaints to be resolved within 15 days
- Sold by a variety of “microinsurance marketers”
- Experience: 88 products registered, 52 having insureds; but many products still outside of this registry



## Approaches taken: **Philippines**

- Three sets of definitions (2006, 2010, 2013); mix of quantitative and qualitative criteria
- Providers:
  - 2006 Microinsurance Mutuals
  - 2010 Insurers and brokers (50 % capital requirement)
- Product features:
  - Claims payments required within 10 days
  - Lighter microinsurance agent requirements
- Experience to date: 89 products registered, plus some under traditional lines beyond the criteria



## Approaches taken: **India**

- Definition of MI regulation 2005: mix of qualitative and quantitative elements
- Cover between 82 US\$ - 820 US\$
- Product and business features:
  - Simplicity of policy, available in vernacular language
  - Microinsurance agent with lower training requirement
  - Limited range of intermediaries such as MFIs and SHGs
  - Claims payments required within 10 days
  - Commissions capped
- Experience: slow growth; limits low; agent range narrow
- New proposal (2014): higher amounts for cover and new channels





## Q3 – What **can** go wrong?

- Arbitrage: avoidance of microinsurance treatment
- Competitive playing field is unlevel
- Appropriate products are prohibited
- Amounts of insurance are too low to meet needs
- Underserved consumers are unable to access the products
- Consumers who need additional protection do not get it
- Underwriters take on risks that exceed their capabilities and financial capacity



## Answers: What can be done?

- **Avoid a narrow quantitative definition**
- **Wide qualitative definition, such as Ghana's**
  - Designed and developed with the intention of meeting the needs of, or marketed and sold to, low income persons or underserved
  - Premiums affordable and contract accessible for the target market
  - Even consumers who are not low income can purchase
- **Supervisory discretion**
  - Supervisor, not insurer, decides what is microinsurance



## Open discussion forum

1 - Purpose of the definition

2 - Elements to be defined

3 – Pitfalls, and strategies to avoid those



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