

Notes of the 1st A2ii – IAIS Consultation Call

The Definition of Microinsurance in Regulation

27 March 2014



Increasingly, governments are recognizing that enhanced access to insurance can help to achieve broader public policy objectives such as financial inclusion, poverty alleviation and social and economic development. To facilitate this opportunity, supervisors are seeking to enhance inclusive insurance markets with the aim to make them work effectively both for the currently served, as well as the unserved and underserved populations. To achieve this aim, supervisors are finding it useful or necessary to have a regulatory definition of microinsurance that encourages existing insurers to serve these markets and motivates informal providers and intermediaries to integrate with the formal insurance sector.



The [IAIS Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets](#) (IAIS, 2012) suggests several criteria that should be kept in mind when formulating such a definition. The newly developed [IAIS-A2ii training module on financial inclusion](#), furthermore provides hands on

guidance for supervisors on this topic. But as the industry is advancing so quickly, new lessons are always being learned and supervisors want to learn from each other what the latest developments in other jurisdictions are.

In an effort to capture these experiences and share the lessons, the A2ii together with IAIS have introduced the **consultation call**. The **consultation call** is a series of conference calls to provide a platform to discuss current regulatory and supervisory developments and trends on access to insurance. It includes both an introduction to the key topic that will be discussed by a panel of experts and then a facilitated discussion around the topic of the call. By bringing together supervisors from



around the world and focusing on one topic, the A2ii and IAIS believe that we are creating an easy-to-access discussion forum. This forum aims to host fruitful discussions and allow supervisors to keep in touch with one another and to learn from each other's experiences.

The first **consultation call** was held on Thursday, March 27 and focused on the definition of microinsurance in regulation. It was attended by [35 participants](#) from across Asia, Africa and Latin America. The experts on the call were international consultants [Martina Wiedmaier-Pfister](#) and [Michael Hafeman](#). Recognizing the importance of such a forum, IAIS Secretary General Yoshihiro Kawai opened the **consultation call** and highlighted the role that financial inclusion and access to insurance play in driving the activities of the IAIS members – “*setting guidelines does not mean anything without implementation*”.

Defining microinsurance for regulatory purposes

Appropriate definitions of microinsurance in regulation can facilitate innovation, proportionality, and access to insurance. But inappropriate definitions can have serious unintended consequences, such as restricting the scope for product innovation, creating an un-level playing field, increasing the level of risk, or providing opportunities for regulatory arbitrage.

Beyond the public policy objectives noted above, Michael Hafeman explained that there are three reasons why you might want to have a microinsurance definition: (i) to distinguish what is microinsurance from what is not; (ii) to develop a specific framework for a lower-risk category of insurance; or (iii) to provide additional protection for some customers. Defining the purpose of the regulatory definition is a critical starting point

After defining the purpose of the regulatory definition, supervisors should clarify which elements need to be defined. Elements to define include: (i) the general description of what microinsurance is; (ii) the intended client groups to be reached through microinsurance; (iii) what the business of microinsurance is; (iv) who can underwrite microinsurance; (v) who can act as an agent or distribution channel for microinsurance; (vi) what a microinsurance product is and (vii) what a microinsurance contract is. As not all these elements are necessary in all cases, it is recommended to stick to the ones that support the intended purpose.

These elements can then be defined through either a qualitative definition or quantitative definition. Qualitative definitions are broader and appropriate for many purposes. They can be used for broader financial sector policy statements, to raise awareness amongst stakeholders that microinsurance will be actively supported by the supervisor and to delineate microinsurance from other classes of insurance by giving the supervisor discretion over what is and what is not considered microinsurance. Quantitative definitions set monetary parameters to operationalize the definition of microinsurance and might be needed to allow for a benchmark for the different regulatory treatment. However, they can have a number of unintended consequences.

Country experiences from the Philippines, India and Peru

To illustrate how these elements are defined in practice, Martina Wiedmaier-Pfister shared the country experiences from the Philippines, India and Peru.

The **Insurance Commission** of the **Philippines** has been among the pioneers in developing microinsurance regulation that enhances access to insurance. In 2006, the Insurance Commission introduced a regulatory definition of microinsurance along business and products lines. The regulatory definition set rules regarding the microinsurance term, the product and the policy, and created a new category of microinsurance provider, the “Microinsurance Mutual Benefit Association”. In 2010, a new regulatory framework was introduced, inclusive of all types of providers and maintaining a mixed quantitative and qualitative approach to define the elements of microinsurance. The new framework set parameters for the various providers, including paying claims within 10 days, setting key features of a contract, and allowing a lighter training requirement for microinsurance agents. In 2011, the supervisor required providers that underwrite microinsurance to monitor key performance indicators including claims ratio, renewal rates and time to pay-out claims for their microinsurance offerings. Most recently, the new insurance law of 2013 increased the quantitative limit set for the level of cover for microinsurance products from approximately US\$ 4 200 in 2006 to around US\$ 11 000.

The **Insurance Regulatory and Development Authority (IRDA)** in **India** was the first supervisor to introduce microinsurance regulation in 2005. The regulation includes a definition that builds on quantitative limits for product features that set their minimum and maximum level of cover. In addition, it includes qualitative elements for product and business features – “the policy needs to be simple, and available in vernacular language”. The IRDA is currently assessing how much microinsurance has been developed and sold under this definition and is looking to expand both the quantitative limits that set the minimum and maximum cover for products and the range of delivery channels able to distribute microinsurance.

In **Peru**, the **Superintendencia de Banca, Seguros y AFP (SBS)** defines microinsurance as “insurance whose purpose it is to protect the low-income population from the occurrence of losses”. In 2007, SBS introduced quantitative elements to the definition, which set limits for product features on the level of cover and premiums. Two years later these two quantitative elements were abolished because they did not prove practical. In 2009, Peru introduced a new microinsurance resolution, but still retained quantitative elements that set parameters around product features and consumer protection requirements. More recently, SBS notes a challenge with the intermingled nature of mass insurance and microinsurance. Many products that are actually microinsurance have been registered as mass insurance to avoid the higher consumer protection requirements for products registered as microinsurance.

Country experience has shown the potential pitfalls of a regulatory definition, on which a special regulatory treatment is based, regardless whether it is quantitative or qualitative. Michael Hafeman highlighted regulatory arbitrage as only one of a number of things that can go wrong with an inappropriate microinsurance definition. The others include creating an un-level playing field for providers, prohibiting appropriate products from entering the market, limiting the amount of insurance cover so that it is too low to meet the needs of the population, restricting access to products for underserved consumers, not providing additional protection for those that need it and enabling underwriters to take on risks that exceed their capabilities and financial capacity.

Recommendations for differential regulatory treatment of micro-insurance

The IAIS Application Paper (1.8.14) recommends “if a definition is needed in local laws or regulations, qualitative definitions are preferred until a quantitative definition is absolutely needed for other reasons, and then it should have particular characteristics.”

- If the supervisor does decide to go with a regulatory definition, the IAIS Application Paper (6.1. and 6.2) recommends the following criteria:
- Definition should focus on products and all insurers should be eligible to issue microinsurance products;
- Definitions that focus on microinsurance should clearly delineate microinsurance business from others;
- Quantitative elements of definitions should be set at the highest possible level to ensure the defined product is as inclusive as possible; and
- Quantitative elements should consider the need to align the resulting business profiles with the expected proportional regulation and supervision.

An example that illustrates the use of a qualitative definition that was highlighted during the consultation call was the experience of the **National Insurance Council (NIC) Ghana**, which enacted a broad qualitative definition focusing on the needs of the low-income people. The NIC Ghana enacted the microinsurance regulation under the existing insurance law, so it did not require a parliamentary process. The NIC’s “Market Conduct (Microinsurance) Rules 2013” define a microinsurance contract as insurance that is

- designed and developed with the intention of meeting the needs of, or marketed and sold to, low income persons - or the underserved.
- Premiums are to be affordable, and contracts accessible for the target market.
- Most importantly, the rules stipulate that - even consumers who are not low income - can purchase these products.

To allow for differential regulatory treatment for microinsurance, quantitative elements were also included in the regulatory definition in Brazil. The **Superintendencia de Seguros Privados (SUSEP)** introduced product feature parameters for the maximum cover for a range of life and non-life products through circulars. Circulars can be issued without parliamentary approval and give SUSEP flexibility to change the quantitative elements if it is needed.

In Ethiopia, the **National Bank of Ethiopia (NBE)** intends to introduce microinsurance regulation that aligns with the business profiles of the three main providers of microinsurance: traditional insurers offering mainly index-based products, microfinance providers that were offering credit life and co-operatives that were not yet doing much, but have lots of potential. The NBE intends to follow a tiered and risk-based microinsurance framework, with parameters set for what microinsurance products could be offered by the three different types of organizations. This system includes a graduation path for smaller providers that aim to migrate to a higher tier.

When allowing differential regulatory treatment it is important that the definition does not inadvertently exclude target customers, providers, products or innovations. The **Insurance Regulatory Authority (IRA)** of **Uganda** highlighted that delineating microinsurance business from others is a challenge for many countries where microinsurance products would be appropriate for most of the market because of the low-incomes of the consumers. This is also a complication highlighted in Latin America where the concepts of mass and microinsurance are intermingled regardless of whether a regulatory definition is in place, such as in the case of Peru, or not, such as in the case of Colombia, where the industry association has developed a definition. The potential regulatory arbitrage is a concern for many supervisors operating in a similar environment.

Defining microinsurance: Striking the balance

Defining microinsurance for regulatory purposes is one approach that supervisors can take to achieve the broader public policy objectives of financial inclusion, poverty

alleviation and social and economic development, implement a proportionate regulatory framework for microinsurance. To achieve this effectively, supervisors need to understand what sets microinsurance apart from traditional or mass insurance products within the country context. This will help to define the purpose of the microinsurance definition. Once the purpose is clear, the supervisor can identify which elements

need to be defined and then define them clearly with appropriate benchmarks. Supervisors should consider the potential pitfalls when defining the elements and detailed criteria, to effectively strike a balance between protecting the consumer and allowing the necessary innovations with a clearly delineated regulatory window for microinsurance.

We cordially invite you to join the second **Consultation Call** which will focus on **“Technical innovations in insurance distribution and regulatory implications”**.

The Consultation call will take place again on two occasions:

Thursday 24 April 2014 at 10am and 4pm CEST.

For detailed information on the second Consultation Call please [click here](#)

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