

Encouraging access to insurance in Peru

Recommendations on regulatory change

Hennie Bester, 17 December 2013
Peru stakeholder workshop

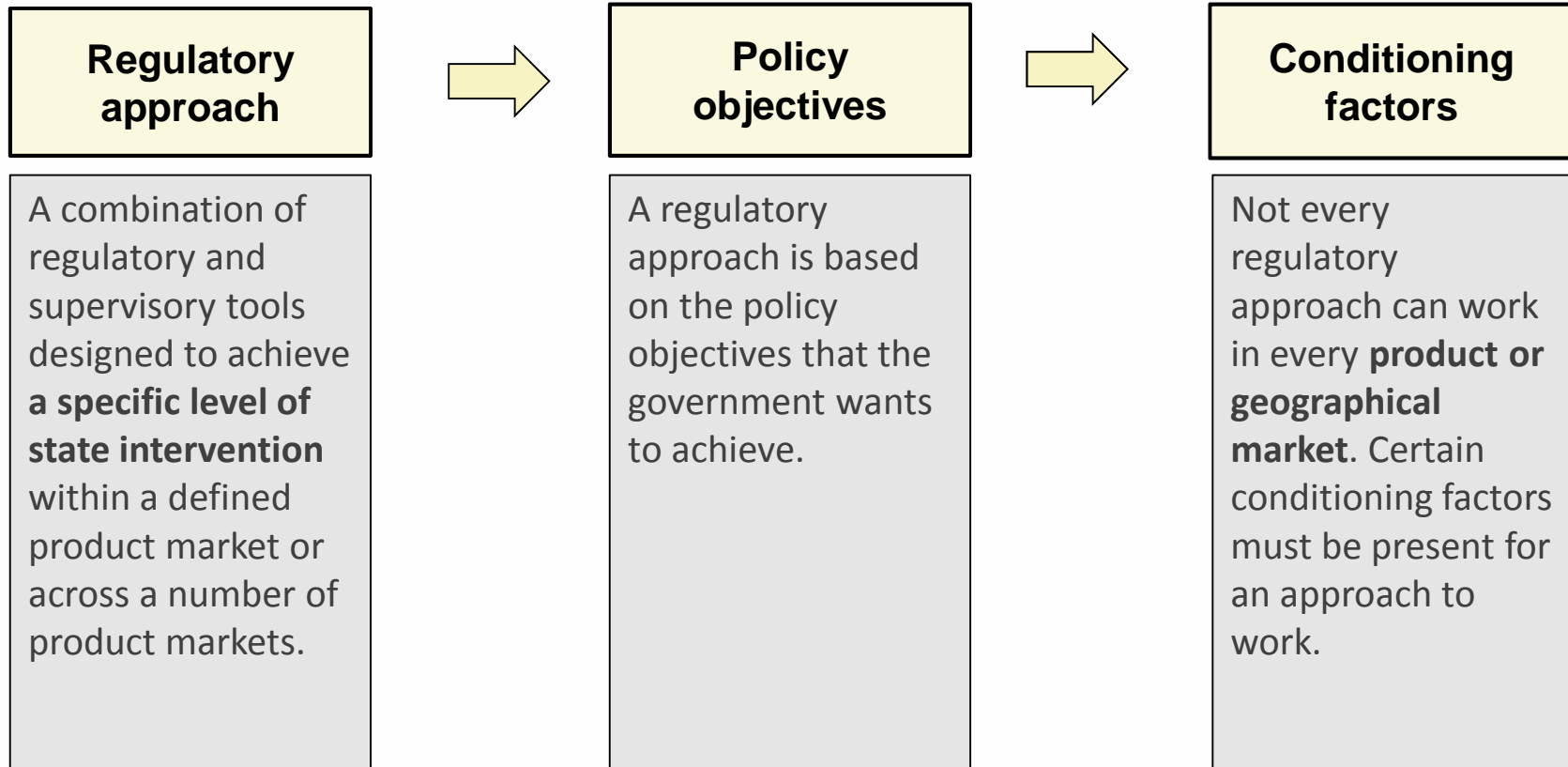


Questions to be answered:

- 1. What is a regulatory approach?**
2. What is the most appropriate regulatory approach(es) for Peru to grow access to insurance?
3. How should the current regulation be adjusted to implement this approach(es)?



What is a regulatory approach?



Fiscal tools relate to state revenue and expenditure:

- *Expenditure measures, e.g. subsidies*
- *Revenue measures, e.g. tax concessions*

Surveillance tools are used to monitor the industry's compliance with the rules:

- *Complaints mechanisms*
- *Off-site monitoring*
- *On-site inspections*

**Regulator's
Tool Box**



Regulatory tools refer to the full spectrum of legally binding rules that sets the framework within which market players are allowed to operate:

- *Rules for market entry*
- *Legal conditions for continued market participation*
- *Compulsory covers*

Enforcement tools are the measures available to regulators to resolve problems with regulated institutions:

- *Graduated compliance/ enforcement*
- *Pre-emptive problem resolution*
- *Prosecution and alternative dispute resolution*

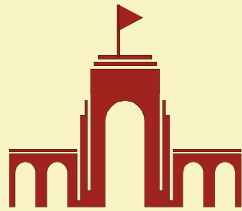




access to insurance initiative

5 regulatory approaches

Public Provision



State identifies risk and manner in which to be covered and subsidises provision

Agricultural and rural insurance in China

Directive



State requires (with sanctions for non-compliance) insurers to serve a specific market segment

India rural and social sector quotas

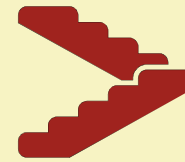
Concessionary



Regulatory requirements reduced for lower risk products to reduce cost of provision

Philippines, Brazil, South Africa (proposed)

Nudge



Rely on market forces to move insurers downmarket with enabling environment

Colombia, Ghana, Thailand

Long-term market development



Focus on developing insurance industry with no specific focus yet on low income market

Uganda, Mongolia


Increasing State Intervention

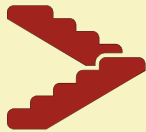


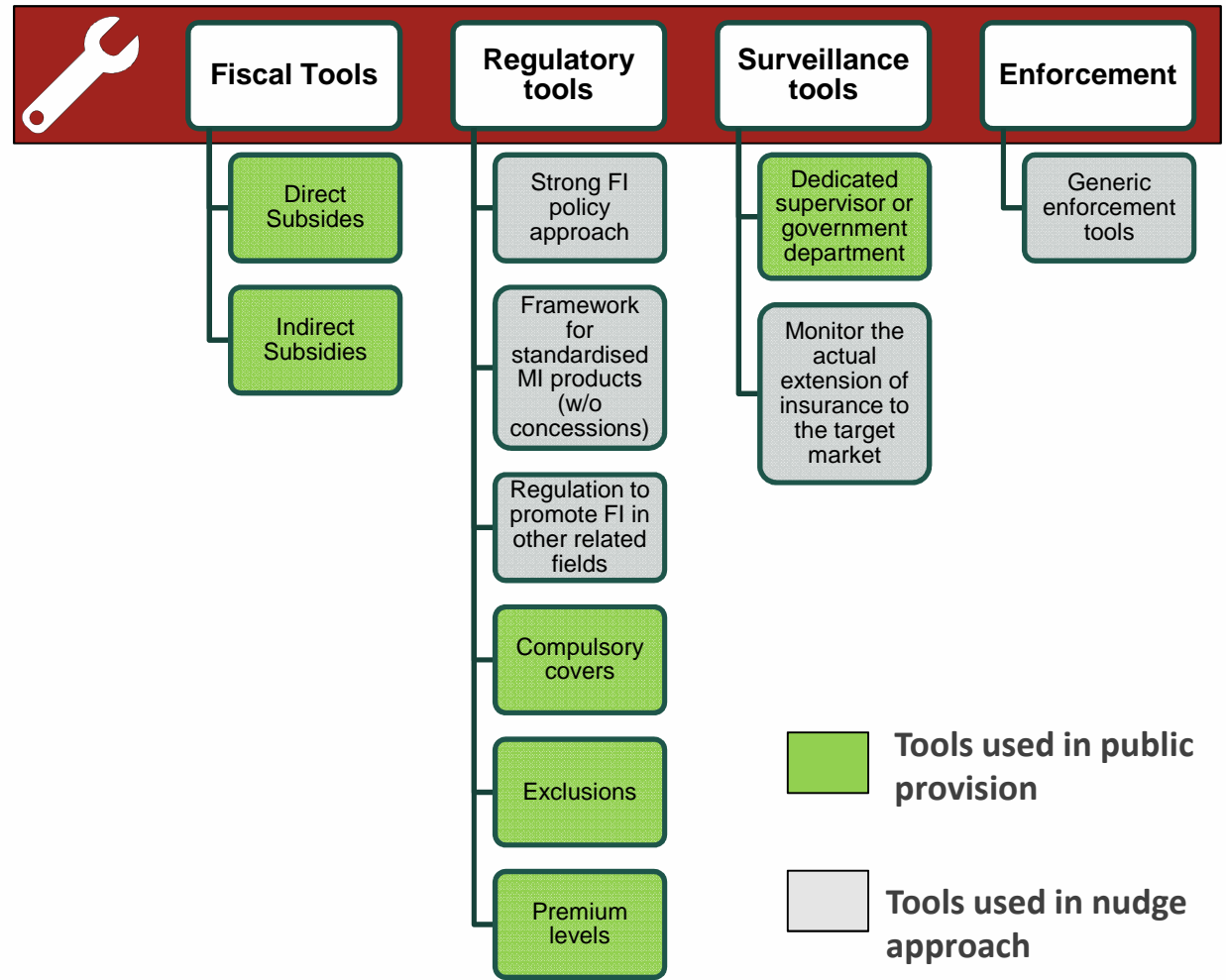
Public policy objective:

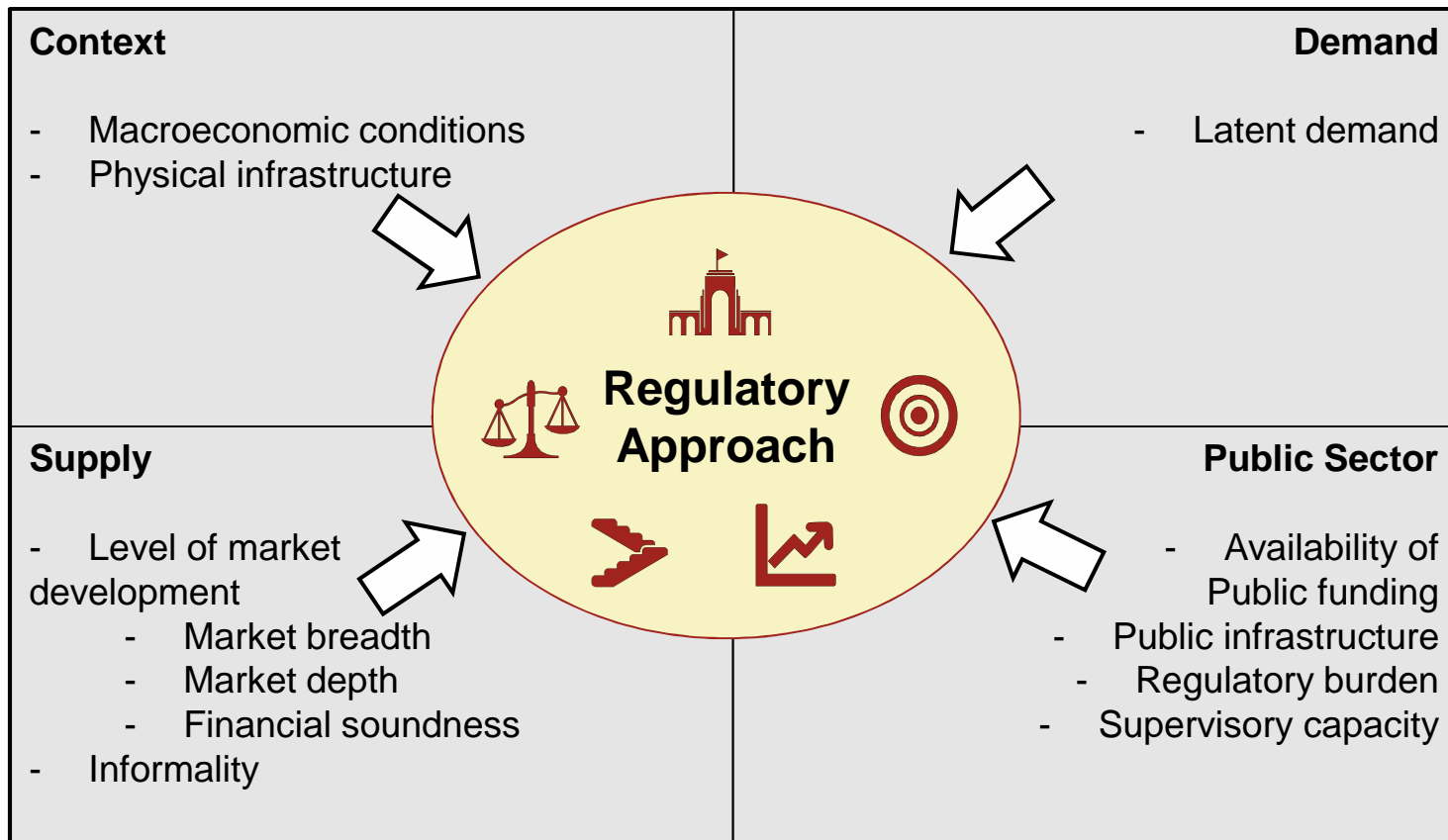
- Social inclusion (1 million more people with financial access)
- Universal health coverage
- Catastrophic risk management

Current approach:






 Public provision in Health, SOAT, Agriculture (subsidies)

 Nudge via Microinsurance resolution (2009) and adoption of the massification circular in 2010





Interplay between conditioning factors and regulatory approaches

						
Context Factors	<i>No adverse macroeconomic conditions</i>	Helps	Important	Prerequisite	Prerequisite	
	<i>Good physical infrastructure</i>	Helps	Helps	Important	important	
Demand	<i>Latent demand</i>		Important	Prerequisite	Prerequisite	
Supply	<i>High penetration</i>		Helps	Important	Prerequisite	
	<i>High breadth</i>		Helps	Prerequisite	Prerequisite	
	<i>Financially sound</i>	Helps	Prerequisite	Important	Prerequisite	
	<i>Informality and consumer abuses</i>			Helps		
Public Sector and regulatory framework	<i>Public funding</i>	Prerequisite				
	<i>Public infrastructure</i>	Prerequisite				
	<i>Adequate level of supervisory capacity</i>	Helps	Important	Prerequisite	Helps	
	<i>High regulatory burden</i>			Important		



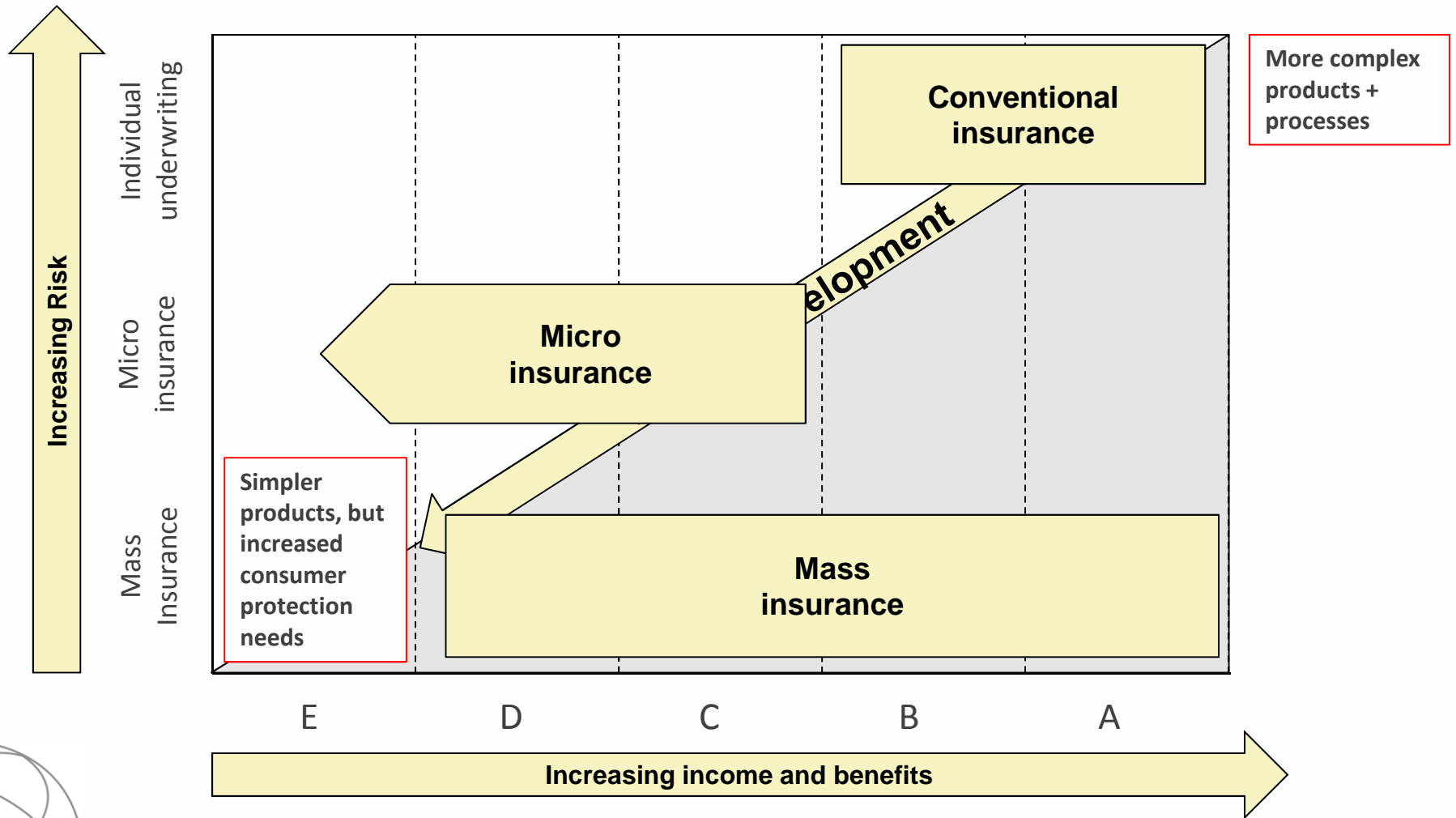
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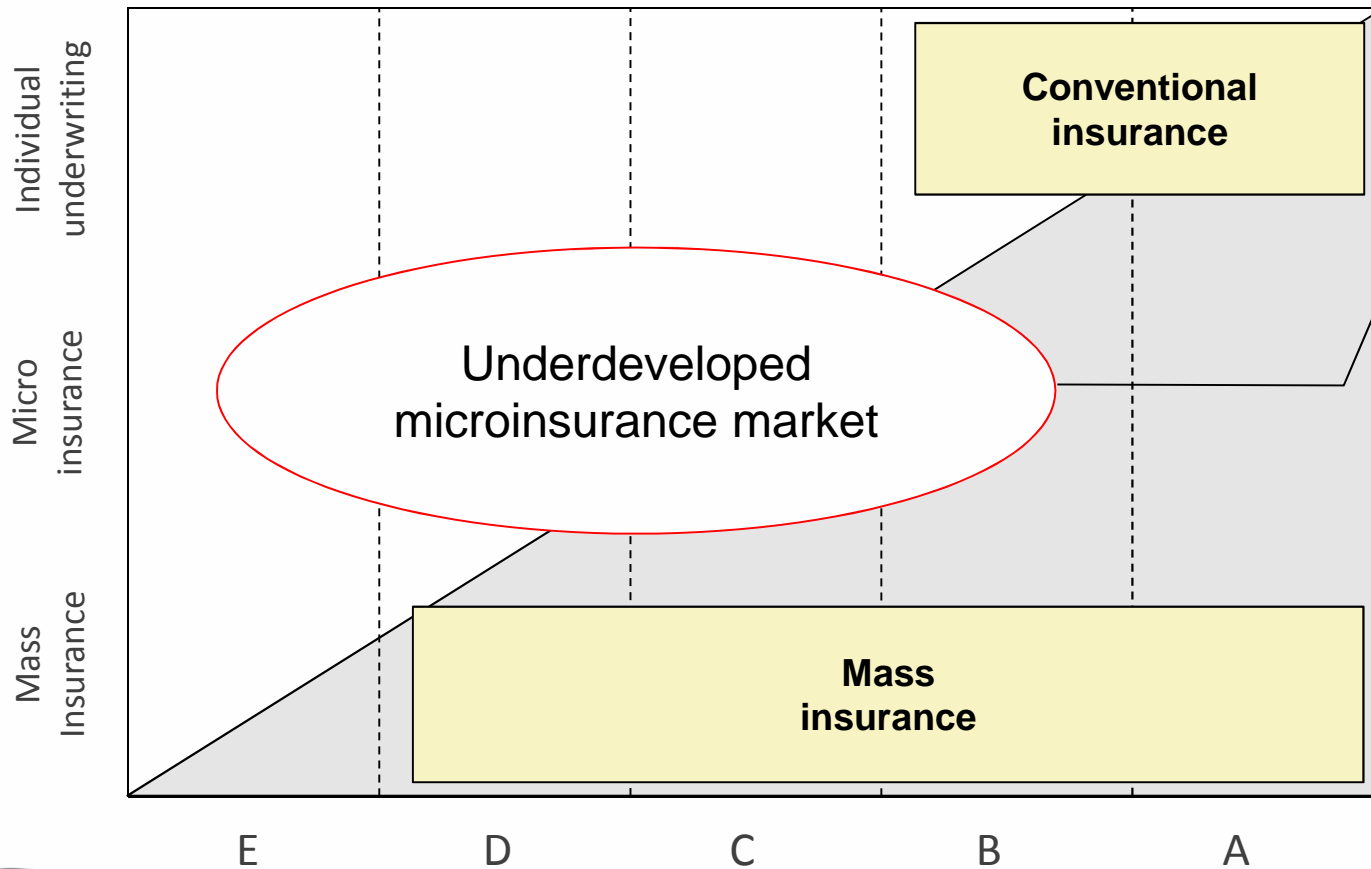


Insurance Market Development





Peru Insurance Market Development



Implications

- Regulatory arbitrage – avoiding the product standards and market conduct rules set for microinsurance
- **Important distribution channels not explored**
- Much of the need for risk mitigation in C, D and E not met
- **Low client value and consumer protection concerns**

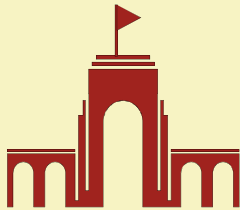




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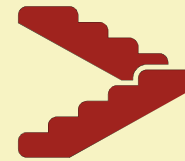
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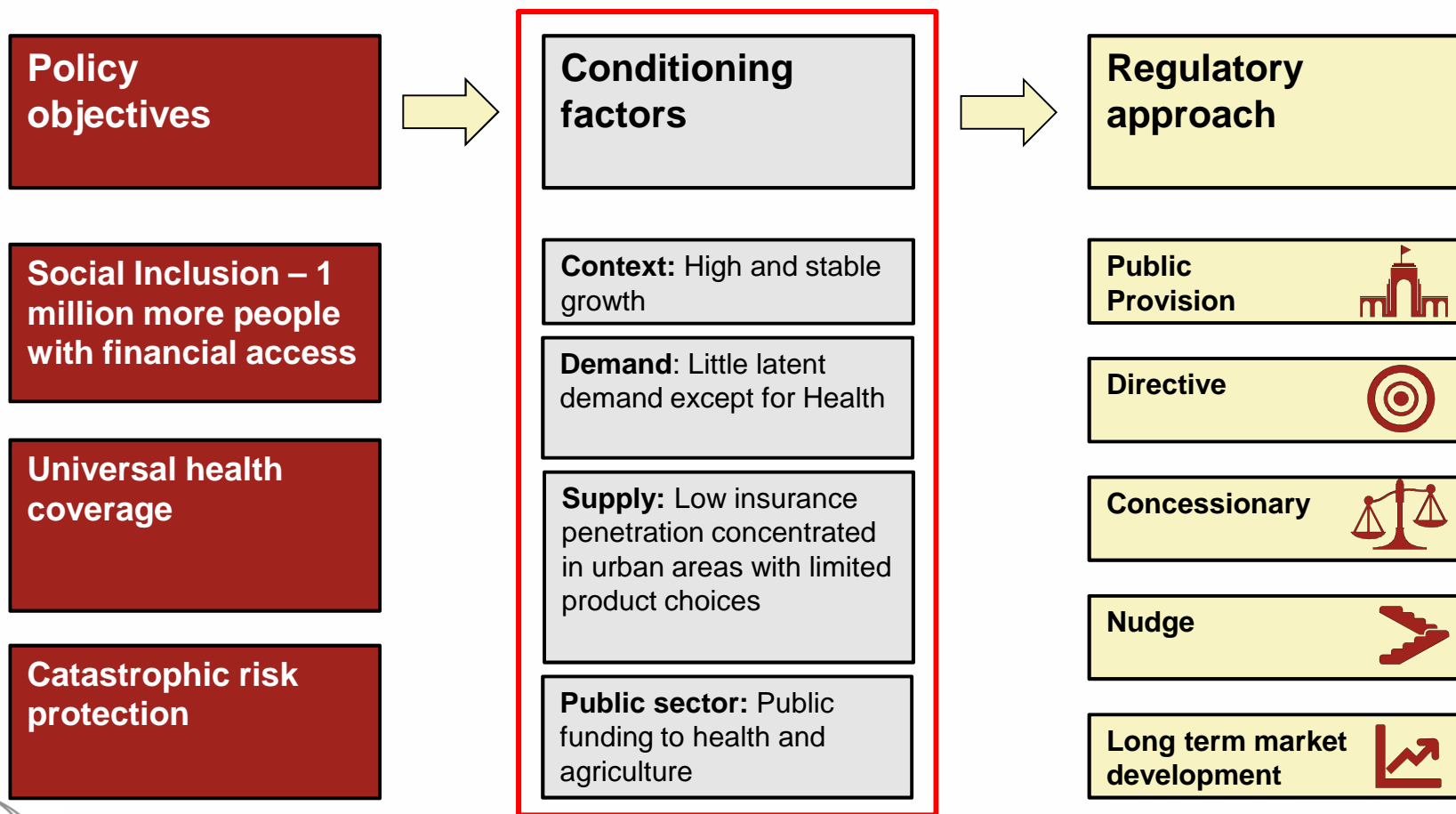


Focus on developing insurance industry with no specific focus yet on low income market







Uganda, Mongolia

Increasing State Intervention

How to choose new regulatory approach?



Environmental factors that prevail in Peru

		Peru 					
Context Factors	No adverse macroeconomic conditions	High and sustained growth	Helps	Important	Prerequisite ✓	Prerequisite ✓	
	Good physical infrastructure	Good in Lima, bad in rural areas (Amazon and Andean region)	Helps	Helps	Important ✓	Important ✓	
Demand	Latent demand	Low latent demand with the exception of health		Important	Prerequisite ✗	Prerequisite ✗	
Supply	High penetration	Low (1.5%) compared to regional average (3%)		Helps	Important	Prerequisite ✗	
	High breadth	Concentrated in urban areas		Helps	Prerequisite ✗	Prerequisite ✗	
	Financially sound		Helps	Prerequisite ✓	Important	Prerequisite ✓	
	Informality and consumer abuses				Helps		
Public Sector and regulatory framework	Public funding	Inclusion of risk reduction in major projects	Prerequisite ✓				
	Public infrastructure		Prerequisite ✓				
	Adequate level of supervisory capacity	Dedicated supervisor	Helps	Important	Prerequisite ✓	Helps	
	High regulatory burden				Important		

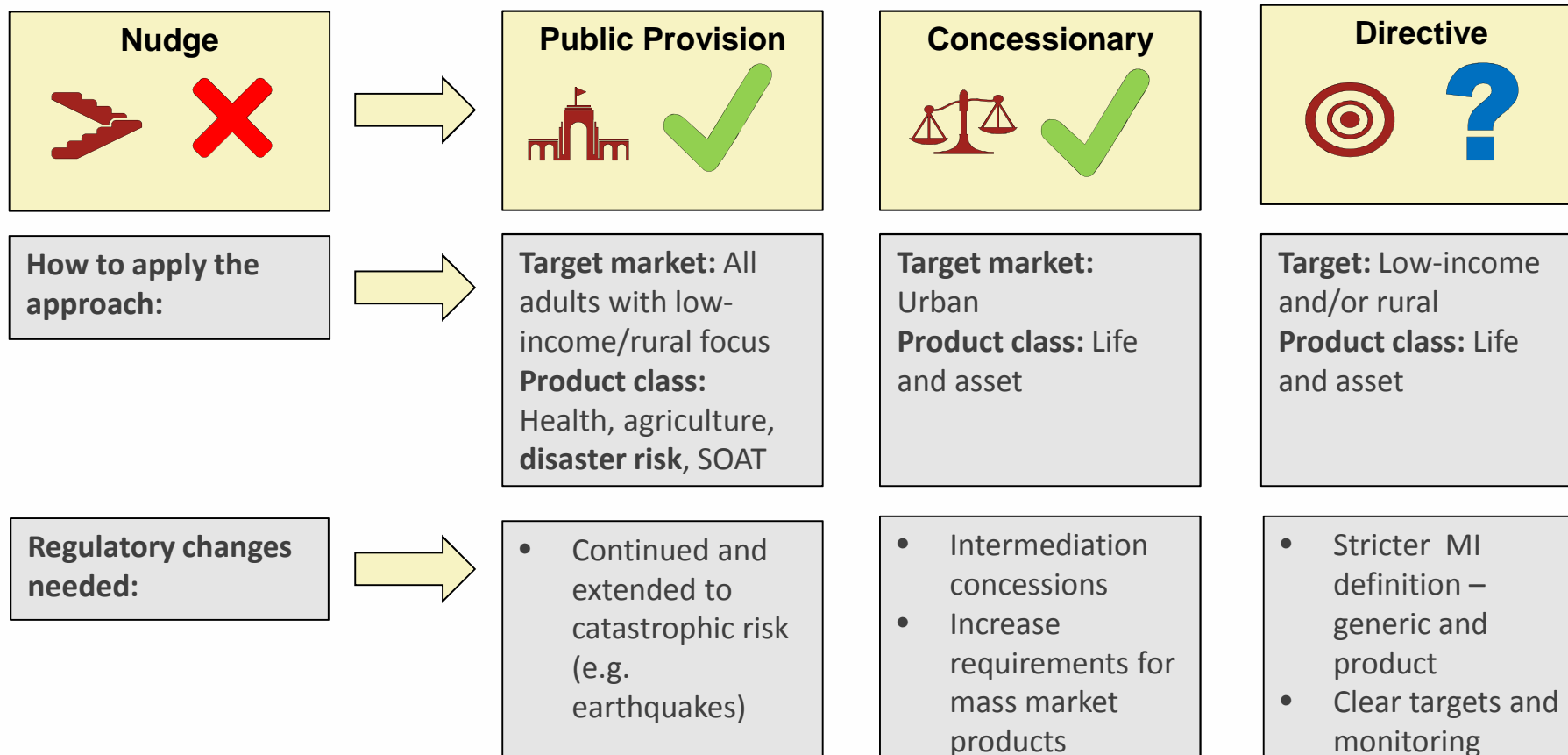


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