# Regulation and Supervision Supporting Inclusive Insurance Markets - Introduction

**Inclusive Insurance Regional Training Program for Insurance Supervisors**
**Dar es Salaam**
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## Overview

A. Introduction
B. Market and policy environment
C. Role of the insurance supervisor
D. Prudential issues
E. Market conduct issues

**Basis for the training**
IAIS Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets (October 2012)
http://iaisweb.org/index.cfm?event=getPage&nodeId=25248
IAIS-A2ii Core Curriculum Module on Regulation and Supervision Supporting Inclusive Insurance Markets (2014)
https://a2ii.org/sites/default/files/field/uploads/2014_02_18_inclusive_insurance_module_final_draft_-_edited_0.pdf

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## A. Introduction

1. Importance of financial inclusion
2. Barriers to inclusive insurance markets
   a. Supply side barriers
   b. Demand side barriers and informal insurance
   c. Inappropriate regulation and supervision
3. Challenges in removing the barriers
4. Mutuals, cooperatives, and other community-based organizations
5. Commonly used terms

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## Inclusive financial markets

### Goal of financial inclusion

- Enable all consumers to readily access products and services that are appropriate to their needs

### Benefits of inclusive financial markets

- Help reduce poverty
- Enhance social welfare
- Promote economic development
- Contribute to financial stability

## G20 Principles for Innovative Financial Inclusion

### Principles for creating an enabling policy and regulatory environment

1. **Leadership** through government commitment
2. **Diversity** of services and service providers
3. **Innovation** through technology and institutions
4. **Protection** of consumers
5. **Empowerment** through financial literacy and capacity
6. **Cooperation** across government, business and other stakeholders
7. **Knowledge** generation and availability of relevant data
8. **Proportionality** in policy and regulatory frameworks
9. **Framework** for regulations reflect international standards and local circumstances

## End goal - sustainability

- Reach a large number of customers with useful and affordable products and services
- Providers meet financial commitments
- Providers treat customers fairly
- Customer protection should not be compromised

## Financial inclusion: Discussion question

Briefly explain how access to insurance in the following situations can help to reduce poverty, enhance social welfare, promote economic development, and contribute to financial stability.

1. Property insurance for a small merchant
2. Medical expense insurance for a poor family
3. Crop insurance for a subsistence farmer
4. Life insurance for a foreign migrant worker
5. Third-party liability insurance for a motorcycle taxi driver

## Barriers and innovation

- Less than full inclusion means there is some barrier leading to some people being underserved
  - Many types, including regulation and supervision
  - Barriers can exist anywhere along the delivery chain
  - Can limit the supply of or the demand for insurance
  - Not just cost – so issues are not just about "little" versions of policies
- Innovations are needed to overcome, remove, or work around barriers

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## Supply-side barriers - insurers

**Lack of experience and expertise**

- Traditional business models focus on higher-income and corporate consumers
- Risks (and opportunities) are not well-understood

**Lack of business incentive**

- Financial viability or business case is unclear
- Premiums may be too low to cover fixed per-policy costs
- Demand for microinsurance is uncertain

**Operational limitations**

- Operational structures do not accommodate inclusive business

**Lack of data and information**

- Data for the calculation of premiums is limited

**Uncertainty around regulatory requirements**

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## Motivations for entry

- Enter a new market
- Profit expectations
- Corporate social responsibility
- Image and brand recognition
- Expand to new countries
- Required by legislation or supervisors

Source: Coydon and Molitor, 2011

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## Achieving viability

**Business strategies**

- Achieve scale
- Manage claims costs
- Manage acquisition and administration costs
- Innovate in the use of technology
- Transfer innovations to traditional operations

**Organizational alternatives**

- Coordinating – use existing resources
- Outsourcing – acquire new resources
- Establish a separate business unit or joint venture

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## Barriers to delivery

- Traditional agents and brokers can be uninterested
  - More comfortable with the higher-end market
  - Business models are focused on higher income and corporate consumers
  - Remuneration is focused on larger-premium products
  - Microinsurance premiums are too low to cover fixed per-policy costs
- Inaccessibility of potential customers
  - Geographic dispersion of consumers
  - Informal employment
  - Weak understanding of insurance
- Regulatory requirements

## Demand-side barriers

- Low income
- Irregular income
- Financial illiteracy
- Lack of insurance tradition
- Religious reasons
- Lack of trust

## Informal insurance mechanisms

- Barriers sometimes mean formal insurers do not provide insurance the customer group making them "underserved"
  - needs remain, but without formal cover
  - find solutions in informal mechanisms and schemes
- These mechanisms fall outside of the "net" of the insurance supervisor
  - May be exempt from supervision or illegal
- Informal insurance shows that customers will take up services if they meet their needs
- Understanding informal insurance mechanisms can be helpful in considering appropriate products and delivery approaches for the inclusive insurance market

## Ultimately, insurance should be formal

- But informal mechanisms can fail:
  - limited capital/ funds
  - lack of expertise
  - lack of sound business practices
  - unfair treatment of customers
- Informal insurance is "insurance" (in the mind of the consumer) even if it is exempt or illegal and …
- … should therefore fall under the supervisory "net"
- Consider appropriate regulatory approaches to informal insurance
- Understanding the size and nature of informal insurance is important to determining the appropriate regulatory approach

## Barriers: Discussion question

Consider the following questions in the context of your respective jurisdictions

1. Are there insurance mechanisms that are exempt from regulation or supervised by another supervisory body?
2. Are there informal insurance mechanisms that would be considered to be operating illegally?
3. If informal insurance exists, does anyone think it is insurance?
4. Would a failure of an informal promise reflect on the development of stable insurance markets?
5. Do your goals include formalizing an informal market?

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## Inappropriate regulation and supervision

**Barrier to supply**

- Restrictions on types of distributors
- Restrictions on legal forms of distributors
- Education requirements and related training costs
- Licensing requirements (aggregators versus their staff?)
- Commission limits in light of different ranges of services
- Restrictions on services that may be provided
- Disclosure requirements

**Barriers to demand**

- Restrictions on frequency of premium payments
- Restrictions on electronic contracting or premium payments

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## Addressing barriers

**Challenges in removing barriers**

- Diversity of barriers
- Diversity of stakeholders
- Need for innovation
- Developing an appropriate, proportionate framework

**How this module can help**

- Focus on the fundamentals
  - What roles are played by various parties?
  - What risks are created by their activities?
  - Why does a requirement exist?

## Barriers: Activity

Consider the following questions in the context of your respective jurisdictions

1. What are the three most significant barriers to the supply of insurance?
2. What are the three most significant barriers to the demand for insurance?
3. On which of these barriers might actions of the insurance supervisor have the most impact?

## Mutuals, cooperatives and community-based organisations (MCCOs)

**MCCOs – a diverse sector**

- Mutual insurers
- Mutual benefit organizations
- Cooperatives
- Friendly societies
- Burial societies
- Fraternal societies
- Community-based organizations
- Risk-pooling organizations
- Self-insuring schemes

## Common characteristics of MCCOs

- Member ownership
- Democracy
- Solidarity
- Created to serve a defined group and purpose
- Entitlement of members to share in the profits

## Possible roles of a MCCO

- Risk bearer
- Input on design of products and services
- Distributor
- Aggregator to reduce costs
- Group policyholder
- Educator of consumers
- Builder of trust in insurance
- Premium collector
- Claims assessor
- Provider of ancillary or complementary services
- Roles of apex organisations
  - Risk-sharing, product design, operational advice, access to technology, actuarial…

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## Commonly used terms

- Aggregators
- Alternative distribution mechanisms
- Apex organizations
- Financial inclusion
- Informal insurance services
- Microinsurance
- Mutuals, cooperatives, and other community-based organizations (MCCOs)
- Proportionality
- Solidarity
- Transitional arrangements