

## Market Conduct Issues Regulation and Supervision Supporting Inclusive Insurance Markets

Inclusive Insurance Regional Training Program for  
Insurance Supervisors  
Dar es Salaam  
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### E. Market conduct issues

- Context for market conduct supervision
- SMART Client Protection Principles
- Channels for delivery
- Conduct of business
- Disclosure to the market
- Fraud and AML/CFT
- Supervision



- Focus on the fairness and propriety of dealings with customers
- Innovations in products, distribution, and service delivery
- Different entities might be involved
- Different functions might be performed, even by traditional participants



1. Appropriate product design and delivery
2. Prevention of over-indebtedness
3. Transparency
4. Responsible pricing
5. Fair and respectful treatment of clients
6. Privacy of client data
7. Mechanisms for complaint resolution



- Innovative channels for delivery
- Issues on channels for delivery



- Banks
- Microfinance institutions
- Nongovernmental organizations
- Direct marketing
- Direct mail
- Alternative sales forces
- Technology-based distribution
- Retailers
- Post office outlets
- Social and religious associations
- Trade unions
- Specialized microinsurance agents and brokers
- MCCOs



- Quickly achieve scale through the aggregation of consumers
- Gain credibility by exploiting existing relationships
- Leverage off an infrastructure footprint, either physical or virtual
- Obtain access to a transaction platform
- Compensation is sufficient to meaningfully supplement other revenues



### Discussion

Consider the following questions in the context of your respective jurisdictions

1. Which types of alternative channels for delivery are currently being used?
2. Select one of the most widely-used alternatives. How successful has it been in:
  - Overcoming geographic barriers?
  - Cost-effectiveness?
  - Leveraging of infrastructure?
  - Overcoming mistrust?



## Discussion

- Discuss within your table group the issues assigned
- Develop a response
- Select someone to present the results
  
- Timing
  - 10 minutes for discussion
  - 3 minutes for each presentation



## Roles of microinsurance distributors

- Aggregation and sales
- Educational
- Administration
- Transaction platform



- Selling may be to groups
- Bundling with other products or services
- Active or passive sales approaches
  - Risk of aggressive selling of inappropriate products
- Disclosure



- Even more important than in traditional insurance markets
- Support development of financial literacy
- Promote insurance awareness
- Promote trust in insurance
- Convey information in an accessible manner



- Roles can vary significantly
  - Underwriting
  - Policy issuance
  - Premium collection
  - Ongoing service
  - Claims adjudication
  - Claims payment
  
- Competing objectives of risk management, efficiency, and service levels



- Premium collection
- Claims payment



- Define the activities subject to regulation
- Accommodate a wide range of channels
- Requirements, commission limits, and restrictions should match the functions performed



- They might seek to use control of access to negotiate favorable arrangements for themselves
- They will probably have more interest in distributing insurance if helps to support their core activity
- Relations can involve multiple parties and be difficult to manage, in part reflecting the variety of roles they might play





### Group Activity

In a particular jurisdiction, the existing requirements on intermediaries include the following:

- insurance can be sold by agents, brokers, or directly by insurers
- agents must be individuals
- brokers must be corporations
- agents cannot represent more than one insurer in respect of each type of insurance (life or nonlife)
- agents and the principals of brokers must meet suitability requirements, including examinations of their insurance knowledge
- agents and brokers must assess the needs of customers and recommend suitable products.



### Group Activity – (2)

Work with your group to identify how these requirements might need to change to accommodate the delivery of insurance through:

1. Microfinance institutions
2. Retailers
3. Community healthcare organizations
4. Sales forces of telecommunications service providers
5. Agricultural cooperatives
6. Funeral parlors

Each group will be assigned one of the above.



## Group Activity (2)

- Discuss within your table group the issues assigned
- Develop a response
- Select someone to present the results
- **Timing**
  - 15 minutes for discussion
  - 3 minutes for each presentation



## Conduct of business

- Context for conduct of business supervision
- Product development
- Communication with customers
- Service to customers



- Diversity of customer situations and approaches
  - Universal solutions are impossible
  - Focus on the basics
- Low financial literacy and incomes can make traditional protection measures less useful



- Needs and preferences can differ significantly
- Product features supportive of enhanced inclusion
  - Relatively low premiums
  - Defined and limited cover
  - Short policy terms to limit risk
  - Few, if any, exclusions
  - Preference for group underwriting
  - Simple and rapid claims processing while still controlling for fraud



- Consider the implications of such product features
- Profit-sharing approaches might differ
- Product approval requirements and criteria might need to be revised



- Information should be clear, realistic, and sufficient
- Consider requirements where no advice is being provided
- Alternatives to written communication



- Orphan policyholders
  - Some alternative channels might increase the risk
  - Others, such as group delivery, might decrease the risk
- Claims payment
  - Process should be simple
  - Settlement should be timely
  - Requirements should balance the need for speed against the need to assess validity
- Complaints
  - Processes should be simple and accessible



- Information should be similar in scope to conventional market
- Specific requirements should be proportionate
- Needs of MCCO members, as owners, should be considered
- Information should support benchmarking by market participants



- Fraud risks might differ
  - Customers lack knowledge
  - Simplified processes
  - Nature of products and small amounts
  - Involvement of noninsurance entities
  
- Supervisory disclosure alternatives
  
- AML/CFT risks are low
  - Nature of products and small amounts
  - Requirements should be proportionate



- Consider more proactive monitoring
- Handbook of Social Performance Indicators for Microinsurance – a useful resource
- Seek opportunities to leverage resources



- Monitoring claims and expense ratios to assess whether microinsurance products are offering reasonable value to customers
- Investigating whether low claims ratios or high expense ratios are caused by inappropriate market conduct
- Analyzing complaints against insurers and intermediaries to identify inappropriate conduct or inadequate processes for dealing with complaints
- Analyzing claims approval rates and claims payment times to help identify slow or unfair claims payment practices



### Topics covered:

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



- Importance of financial inclusion
- Barriers to inclusive insurance markets
- Challenges in removing the barriers
- How this module can help
- Commonly used terms



- Analyzing the environment
- Demand for insurance
- Products and services
- Channels for delivery
- Insurers
- Policy environment





- Supervisory objectives
- Importance of having a supervised market
- Providing scope for innovation
- Proportionality
- Definition of microinsurance in regulation
- Dealing with diverse market participants
- Dealing with diverse authorities
- Resource implications



- Licensing
  - Importance of licensing
  - Regulated insurance activities
  - Entities to be licensed
  - Implementation of licensing
- Operations
- Solvency regime
- Supervision



- Context for market conduct
- SMART Client Protection Principles
- Channels for delivery
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- Questions
- Comments
- Evaluation

Thank you for participating!

