access to insurance initiative

IAIS
INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

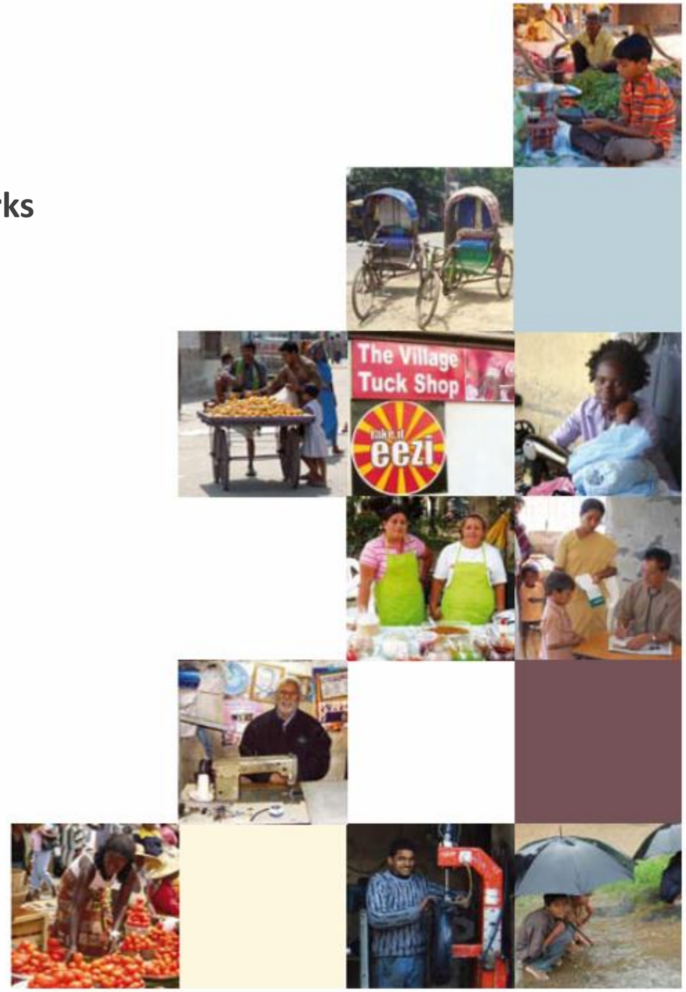
Access to Insurance Initiative

A global programme for sound regulatory and supervisory frameworks

Consumer Protection in Inclusive Insurance

A2ii-IAIS Consultation Calls
22th May 2014

Craig Thorburn
Martina Wiedmaier-Pfister



1. IAIS Guidance on inclusive insurance

- “Consumer protection is achieved through a variety of means such as prudential and solvency regulation, conduct of business supervision, consumer education, and consumer protection frameworks and insurance guarantee schemes.” (IAIS Newsletter, 2013)
- “Consumer protection needs are higher when low-income clients are served with insurance” (IAIS Application Paper on Regulation and Supervision of Inclusive Insurance Markets 2012)
- “The purpose of this paper is to provide an overview of the issues in the area of market conduct, distribution and consumer protection that are specific to inclusive insurance markets … to discuss issues relating to proportionate regulation and supervision.” (Up-coming 2015: IAIS Issues Paper on Market Conduct, Distribution and Consumer Protection, Draft 2013)

1.1 IAIS Application Paper

- **Insurance should be formal**: e.g. pilots need to be registered
- **Innovations to be facilitated:** permit innovative approaches while protecting the consumer
- **A proportionate approach is recommended:** tailored to the risk
- **Roles and responsibilities need to be clear**: supervisory cooperation


International Association of Insurance Supervisors

Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets

October 2012

1.2 Up-coming Issues Paper Market Conduct, Distribution and Consumer Protection

1. **Financial education:** roles, what works
2. **Disclosure and transparency:** providing key information on the product and insurer to (potential) clients
3. **Data collection and data sharing:** with the regulator and between the companies
4. **Product design:** issues of design to meet customer needs and standardization of products
5. **Distribution methods:** use of banks, utility service providers, mobile phone companies and retailers
6. **Client acceptance:** identification and providing preliminary cover
7. **Claims settlement:** proof of claims and payment terms
8. **Administrative procedures and payment methods**: proof of cover and of premium payments, payment methods like e-money
9. **Dispute and recourse:** disputes with insurers, formal recourse to an external tribunal or ombudsperson

access to insurance initiative

IAIS INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

2. Trends

- **Increasing political pressure** to support financial inclusion and also, other policy agendas like agriculture, employment generation, green finance, or climate change adaptation
- **Product variety rapidly growing,** innovation “hype” not always producing quality or a sustainable business
- **New distribution partnerships outside the insurance** sphere growing, such as non-banking agents, retailers, utility companies or mobile network operators
- **More complex lines increasing,** such as micro pensions, micro health and catastrophic insurance

3. Challenges

- The **evolving distribution landscape and product diversity** bears new consumer protection risks.
- **Client value** is questionable in some mass products and microinsurance products.
- Supervisors increasingly **engaged in financial education**. Engagement can be limited to a catalyst role by leveraging the engagement of others, or engagement can be broader.
- **Supervisory capacity** often not at par with market innovations. Additional funding for supervisor often not provided.

4. Responses of supervisors

- Regulatory delineation of microinsurance business and separate treatment in terms of dedicated framework, separate product registry, performance monitoring and supervision
- Collaboration of various departments within the commission, or setting up a separate microinsurance department
- Collaboration with other authorities in terms of regulating and overseeing distribution
- Dialogue with the private sector to improve regulatory feasibility, avoid regulatory backlash and leverage industry action

5. Consider Outcomes before Prescribing Activity

One useful way to consider regulation and supervision is to try to define what is meant to be achieved in clear terms

Disclosure: Minimum requirements are defined in the IAIS Application Paper (4.41). The intention is that the customer should …

- Know that they have insurance;
- Know who the insurer is;
- Know their obligations under the product (eg, to pay premiums when due if relevant)
- Know how to access the services under the product;
- Know when the insurance ceases.

Now we can consider how we might achieve these outcomes and test if they are achieved in practice.

6. Proportionality

Proportionality in consumer protection means that, if the risk is larger then the supervisory effort should be larger or more “intense” too.

Supervisors are encouraged to move from being reactive to proactive.

For example, initiate customer survey projects rather than rely on reacting to complaint statistics. Investigate quality and not just compliance.

Interesting studies have been done in some jurisdictions looking at the experience of clients in particular groups (claimants, buyers of particular products, etc.)

access to insurance initiative

IAIS
INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

Innovation and Pilots can present challenges.

- What happens when the pilot stops unsuccessfully?
- Although temporary arrangements for pilots might be a good idea, what might have to be put in place to make up for incomplete licensing? Consumer complaint handling, access to guarantee schemes?
- What happens if the pilot stops and becomes a success but the “special effort” funding stops too? How will the transition be managed?
- M-Insurance (how do we handle disclosure?) and in the case in Zimbabwe – what happens when the innovation changes the effective responsibility for the client’s continued fair treatment?

8. Concluding remarks

- Define your priorities in a growing market
- Adjust supervisory capacity building
- Be proactive in terms of client value

Discussion:
Challenges in your jurisdiction?
What works? What does not?

access to insurance initiative

IAIS
INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

www.a2ii.org

The Initiative is a partnership between:

IAIS INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS · CGAP · BMZ Federal Ministry for Economic Cooperation and Development · FINMARK TRUST Making financial markets work for the poor · ILO International Labour Office · UNCDF

ADB · FIRST Initiative · FOMIN · Making Finance Work for Africa · Ministry of Foreign Affairs of the Netherlands

Hosted by:

giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH