

# The [Past and] Future of Microinsurance Regulation in South Africa

**NATIONAL TREASURY PRESENTATION TO MIJWG  
20 SEPTEMBER 2010**



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# STRUCTURE OF PRESENTATION

- Background
- Policy Making 101 – high level conceptual issues
- Drilling down – the technical detail
- South Africa – **what** is microinsurance & **why** do we need it?
- Proposed regulatory environment
- Market Impact
- Policy process – past, present, future



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# BACKGROUND

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- 2003 PCOF hearings on abuses in the funeral benefits industry
- 2005 FinMark Trust investigative study into funeral assistance business, entitled "The regulation of assistance business in South Africa"
- Joint NT / FSB task team set up to direct the assistance business reform process (PCOF updated to these developments)
- 2006 Project extended beyond funeral assistance business to consider all microinsurance
- 2007 Inter-department forum to ensure alignment across government
- 2008 Joint NT / FSB discussion paper released for public comment, entitled "The Future of Microinsurance Regulation for South Africa"  
+ National roadshow
- 2010 Final [targeted] engagement, policy statement due October

# **POLICY MAKING 101 – HIGH LEVEL CONCEPTUAL ISSUES**



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# HIGH LEVEL CONCEPTUAL ISSUES

Ask yourself:

- What is MI?
- What are your motivating policy objectives?
- Who will take responsibility for the project – political will?
- What is happening internationally – lessons learnt?
- What vulnerabilities are specific to YOUR market? (these could be abuses or simply an absence of provision)
- What does your market currently look like and what would you like it to look like?
- Who are/should-be your MI providers?
- Interface of MI with traditional insurance?
- Interface of prudential vs market conduct regulation?
- Who will supervise market participants: institutional vs functional regulation (also issue here of form vs function)
- Role of enforcement vs consumer awareness – who takes responsibility for bad conduct and bad decisions?

=> *DEVELOP A STRATEGIC VIEW!!!*





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# **DRILLING DOWN – THE TECHNICAL DETAIL**

# DRILLING DOWN

Now ask yourself:

- Regulatory architecture: does MI require stand-alone legislation?
- How should MI be defined - what are appropriate MI products from demand, supply and risk management perspectives?
- A role for product regulation?
- What are the appropriate prudential requirements?
- What are the appropriate intermediation requirements?
- Market impact (and on the supervisor)?
- Transition arrangements?
- How to support regulatory compliance?
- Tax?????

*=> Be willing to compromise - pragmatism must trump idealism, but don't sacrifice core principles*



# **SOUTH AFRICA – WHAT IS MICROINSURANCE & WHY DO WE NEED IT?**



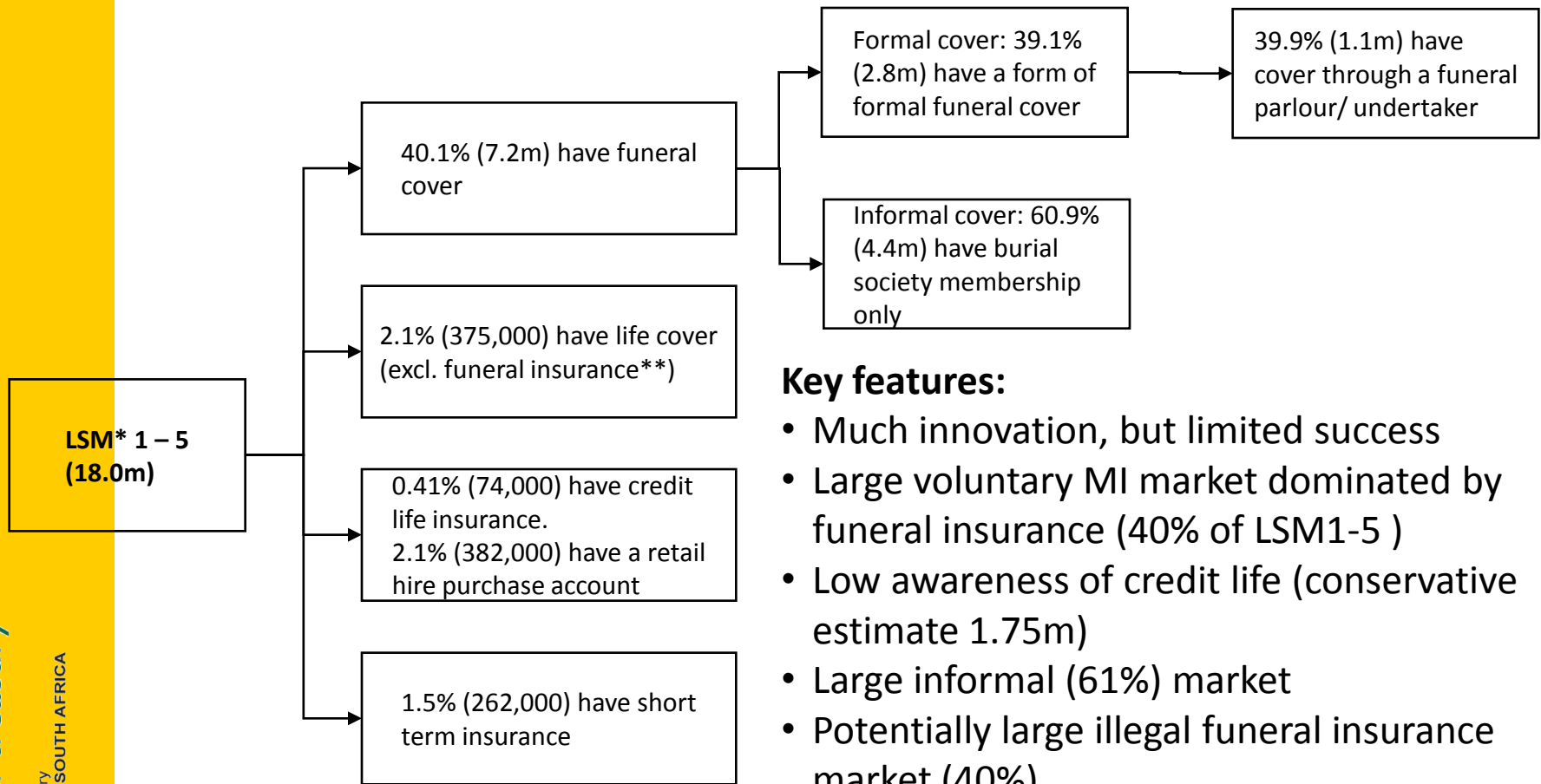
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# MICROINSURANCE – WHAT IS IT & WHY DO WE NEED IT?

- **Microinsurance:** Insurance for low-income households
- **Purpose:**
  - Help manage key risks (life, loss of income, etc.)
  - Support the delivery of other important services (e.g. funeral services, health services, etc)
- **Challenge** of achieving take-up:
  - Clients: Limited knowledge and awareness, distrust, spending priorities, etc
  - Insurers: Low premiums require innovative products and distribution models
- **Need to create an appropriate space for models that can achieve take-up**

# SA MARKET CONTEXT



## Key features:

- Much innovation, but limited success
- Large voluntary MI market dominated by funeral insurance (40% of LSM1-5)
- Low awareness of credit life (conservative estimate 1.75m)
- Large informal (61%) market
- Potentially large illegal funeral insurance market (40%)
- No significant penetration beyond funeral yet
- All MI underwritten on short-term basis

Source: Eighty20 calculations based on FinScope 2007 (using weightings derived from the Census 2001)

\* The definition of LSM used is according to the 2005 algorithm

\*\* Does not imply that respondents in this segment do not have funeral insurance, but that they have a formal life policy

# MICROINSURANCE – WHAT IS IT & WHY DO WE NEED IT?

## Key issues to address

- **Large informal market** with no protection for consumers
  - Create an appropriate home for burial societies
  - Support formalisation of insurance provision by funeral parlours
- Improve **value and protection** in compulsory credit life space
- Remove **entry barriers** for smaller and mutual insurers (e.g. friendly societies, larger funeral parlours, etc.)
- Market conduct regulation **increases costs but leaves poor unprotected:**
  - Advice limited to high-income market: expensive
  - Tick-box for low-income market: inexpensive but limited success beyond funeral insurance and risk of mis-selling
- Create the space for models to grow and **extend beyond funeral insurance**

# MICROINSURANCE – WHAT IS IT & WHY DO WE NEED IT?

## National Treasury / FSB objectives

- **Inclusion:** Facilitate the development of the MI market. Particularly to maintain and develop voluntary business.
- **Abuse:** Concerns about abuse increasing enforcement pressure but with risk of damage to existing MI market
- **Alignment of regulatory changes:** Large number of regulatory changes potentially impacting on market. Need for coherent framework to manage diverse set of policy and regulatory (including non-insurance) objectives
- **Facilitate competition:** Various new initiatives to extend market (providers and products) some of which operate at risk in grey areas of regulation
- **Remove barriers:** Particular market segments facing constraints under current regulation (e.g. friendly societies's use of cell captives). Remove unnecessary barriers to entry and operation to facilitate broader participation.
- **Efficiency:** Align regulation with risk to be managed

# PROPOSED REGULATORY ENVIRONMENT



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# PROPOSED REGULATORY ENVIRONMENT I

## Discussion paper themes

- *Better* rather than *more* regulation
- Recognise multiple policy objectives
- Level playing fields but tiering based on risk
- In favour of market development to serve the needs of the poor and illustrates willingness by government to create an environment in which this can happen
- Recognition that regulation increases costs and attempts to *streamline regulation* where this can be justified by “contained” risk
- Balancing consumer protection and inclusion: reducing the per transaction cost of market conduct regulation
- Encourage value to consumers: cheap products does not necessarily present value
- Specific focus on enforcement and recourse with support to entities to formalise
- Extend beyond Charter
- MI does not exist in isolation and is integrated into overall insurance framework

# PROPOSED REGULATORY ENVIRONMENT II

## So what do we propose?

1. Product-based approach to reduce risk of microinsurance i.e. **limit risk** through a **restricted product definition**
2. **Reduced entry and compliance requirements** in line with lower risk
  - Create space for underwriters esp. smaller microinsurers (including mutuals)
  - Create space for innovative intermediary models (including advice-based models)
  - Compliance support
3. **Improved enforcement and recourse**, building **consumer awareness**



# PROPOSED REGULATORY ENVIRONMENT III

## 1. Proposed **micro-insurance definition** to limit risk:

- Benefits capped – multiple product categories?
- Term of less than 12 months
- Covering both life and non-life but limited to risk-only
- Simplified terms and conditions: product standards?

# PROPOSED REGULATORY ENVIRONMENT IV

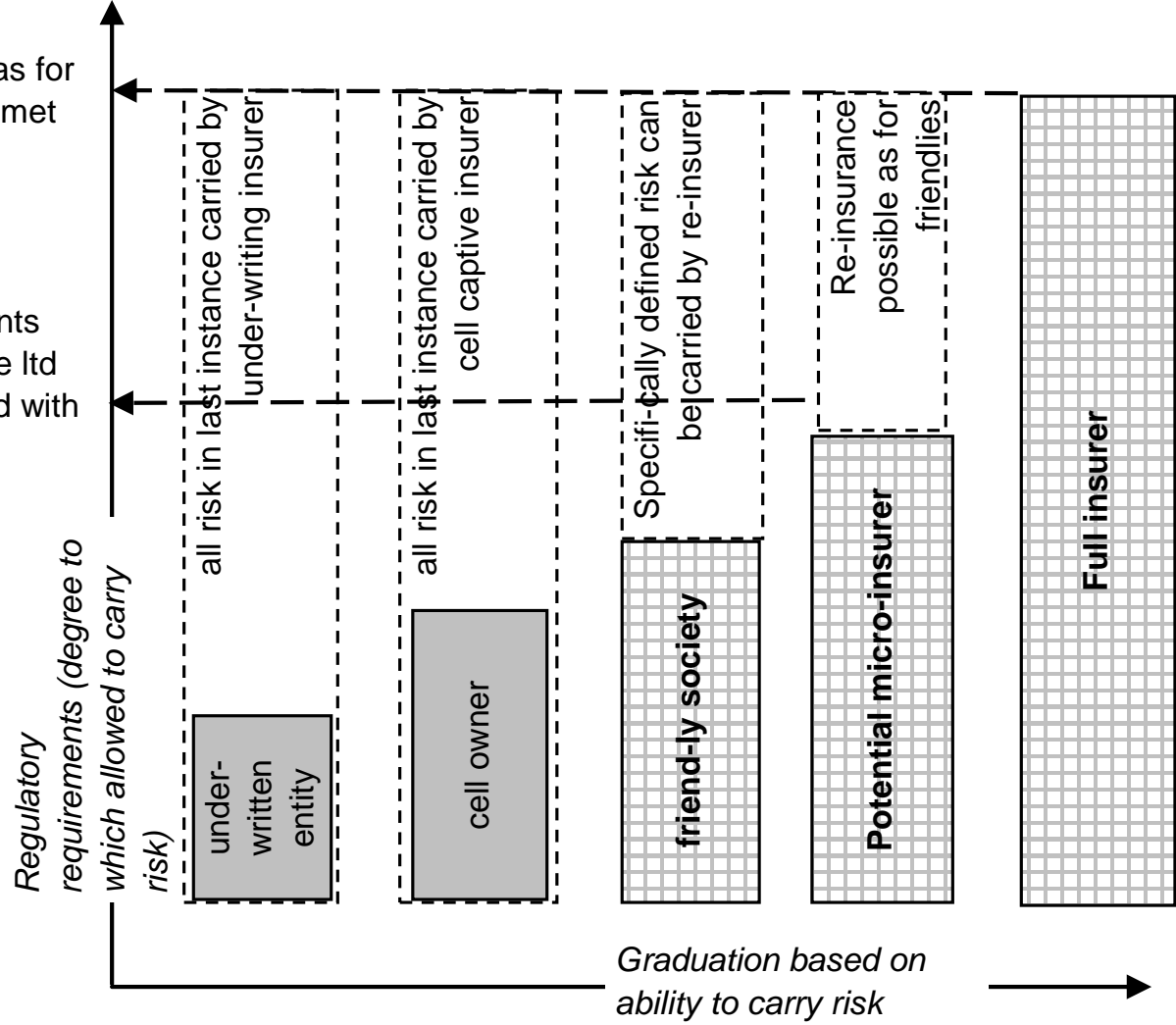
## 2. Underwriting

- Limited to MI products as defined
- Upfront capital of R3m
- Reserving based on simplified standard model
- Reduced organisational capabilities
- Minimum set of corporate governance requirements
- Public/private companies and cooperatives (migration of Friendly Societies?)
- Restricted investments
- Graduation based on ability to carry risk
- Exemptions (and support...) for informal providers?

# PROPOSED REGULATORY ENVIRONMENT V

Same level of requirements as for formal insurer met by all versions

Ltd requirements based on more ltd risk associated with prod. def.



# PROPOSED REGULATORY ENVIRONMENT VI

## 3. Market Conduct – Proposed Requirements

- Intermediation requirements linked to MI as product category
  - Simplified product
  - Simplified & clear language disclosure
  - Promote the giving of advice
  - No advice required but encouraged
  - Uncapped commissions (voluntary products), subject to reporting and monitoring
- } Simplified intermediation req

# PROPOSED REGULATORY ENVIRONMENT VII

## 4. Enforcement and Retribution

- Improved coordination and collaboration with other government departments (?)
- Utilising apex bodies to extend capacity
- Compliance support – regulatory, operational, financial
- Empower the supervisor!
- Empower the consumer!

=> *Transparency and accountability critical*



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# MARKET IMPACT

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- Burial societies, friendly societies and cooperatives
- Funeral parlours
- Administrators
- Long-term and short-term insurers
- Intermediaries

# POLICY PROCESS - PAST, PRESENT, FUTURE



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# PAST, PRESENT, FUTURE

2003-7	Initial policy deliberations
2008	Policy discussion document
2008-10	Extensive public engagement
2010	Policy statement
2011	Draft legislation tabled to parliament
2012	Implementation



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# QUESTIONS?