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## Meeting on Microinsurance – Promoting Successful Regulatory and Supervisory Approaches for Increased Access to Insurance

6–8 July 2010

Basel, Switzerland

### Synthesis and Closing Remarks

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#### **Distinguished Guests, Ladies and Gentlemen,**

We are approaching the end of two and a half days of enriching presentations and discussions. It is now my pleasure to close this exciting meeting.

The practice of meeting in Basel has become a tradition of sorts. Since 2006 we have been regularly meeting here and in places like Rio, Hyderabad, Cape Town or Beijing. Insurance supervisors and members of the MIN learn together and exchange views on how to enhance regulatory and supervisory frameworks for microinsurance.

FSI hosted us for the second time and we are indeed very thankful to them for this wonderful arrangement.

Microinsurance pioneers from 30 countries attended this meeting. This is impressive and shows how important the topic has become in more countries!

The conference has been very insightful. I personally learnt a lot and would like to thank you all for your valuable contributions.

Before closing this event, allow me to backtrack and highlight some topics and lessons that have struck a chord with me over the past two and a half days. I have nine topics altogether.

#### **1. Microinsurance is a relevant financial service for low-income earners.**

The movies we watched have illustrated this nicely.

a) First, microinsurance is relevant from a poverty alleviation perspective. We have extensively discussed how low-income earners face many risks that are beyond their control. Yet they lack formal protection mechanisms. In case of a shock, they are pushed deeper into poverty.

People demand microinsurance services if it is offered at their doorstep by organisations they trust, and if these services address their particular risks and living situations.

b) Second, microinsurance is particularly relevant in times of financial crises and economic slowdown. Loan portfolios remained stagnant or were shrinking, and remittances tumbled. Adverse impacts include unemployment, reduced nutrition and taking children out of school. We face a situation where millions of low-income earners are forced to migrate to the informal sector, surviving without any protection from public social safety nets. Each time less they can rely on their traditional ones.

The financial crisis has shown how much the quality of financial services and the stability of financial markets matter. This situation reemphasises the importance of regulating and supervising financial markets.

c) Third, microinsurance is relevant in the context of financial inclusion, as reconfirmed by Nestor Espenilla: 'A financial inclusion policy along with the promotion of stability and efficiency is a worthy policy and they all are mutually reinforcing.'

Financial exclusion causes various adverse effects. It makes people more vulnerable to financial distress, debt and poverty. In Pittsburgh in September 2009, the G20 leaders made a commitment to improve access to financial services for the poor. They directed the establishment of a G20 Financial Inclusion Experts Group under the 'Access Through Innovation Sub-Group'. The aim is to identify lessons learnt in innovative approaches to financial service delivery, promote successful regulatory and policy approaches and elaborate standards on financial access, financial literacy and consumer protection.

Financial inclusion is more than savings, remittances and credit; it also includes insurances. We made this very clear two months back when we in our capacity as IAIS MIN JWG provided meticulous comments on the G20 Access Through Innovation report. Our comments were welcomed by the G20 Financial Inclusion Expert Group. The ATSG has also acknowledged the relevance of standard setters and especially the IAIS' strong commitment to this process.

Craig Churchill mentioned several initiatives and projects, which are committed to contributing to this agenda.

In the regulatory sphere we can count on the Access to Insurance Initiative, which enhances regulatory and supervisory capacity by working globally, regionally and nationally. In this meeting, we find a significant number of partner countries of the Initiative such as India, Philippines and South Africa, and potential ones such as Guatemala, Peru and Mongolia.

In terms of the market, we have the ILO-Gates Innovation Facility that works with providers and their support agencies and we have Leapfrog.

Finally, we have MIN as an international platform for knowledge development; and we have included consumer protection to our work plan as high priority.

All these undertakings are complementary within a comprehensive capacity development effort on all levels of the financial system.

## **2. Supervisors play a key role in promoting a thriving microinsurance market.**

Many of the presentations over the last two days clearly show that sound regulation and supervision can help

- achieve customer protection ensuring fairness in the microinsurance business when the industry starts to innovate;
- encourage sound markets and competition;
- facilitate technical and institutional innovations and low-cost provision; and
- increase the availability of a broad range of insurance products.

The regulatory challenges are manifold as we learnt from Martina Wiedmaier and Luis Huerta.

Several speakers such as Hennie, Nestor and Martina have pointed out that in order to work efficiently and achieve true impact, insurance supervisors are best advised to coordinate with other related regulatory authorities such as telecommunications, health or cooperatives.

In this context Arup Chatterjee also illustrated the importance of a supportive financial inclusion policy framework.

## **3. Understand your market - then regulate.**

As Hennie and Martina highlighted it makes much sense to use a country diagnostic study as a starting point in identifying strategic options.

A sound diagnostic study provides the grounds for timely, well-sequenced and sound actions by the authorities concerned.

SUSEP Brasil is one of those organisations that has commissioned a comprehensive diagnostic study to identify key policy and regulatory barriers and to study market potential. The insights allow Brazil to identify and prioritise the regulatory moves that promise to be most efficient and effective. Brazil is also a good example of how supervisors can engage in a dialogue with the market stakeholders to better understand the markets and the particular concerns of the different stakeholders.

Regulators and supervisors need to be alert as soon as the industry becomes engaged. Their level of know-how should at least be on par with, if not ahead of the industry - an ambitious goal.

## **4. Trusted and efficient delivery lead to actual usage of insurance.**

Delivery channels are essential for bringing products to clients for whom insurance may be fundamentally new. They must have the potential to reach many clients at low cost. There is a variety of channels and what works depends on the country context. In many countries the microfinance institutions have been driving microinsurance. However currently, many other channels are used: banking correspondents in Brazil, community leaders in India, retailers in South Africa, trade unions in Peru, or public utility companies in Colombia. Employers, post offices, NGOs and various organisations with large networks also come into play.

The illustrative examples that Doubell Chamberlain shared with us are striking. Innovative business models are strongly defined by their distribution strategy and combine specific products and underwriter features into the overall delivery model. In this sense, delivery channel regulation is an integral part of the salient features of microinsurance regulation as found for example in Mexico and Peru.

Various speakers emphasised that new technologies will play a key role in this regard. Rakesh Jain reported that there are 600 million mobile phone users in India, most of whom do not have a bank account. This market potential can be tapped if e-money and SMS banking could be publicised. This is a good example of insurance supervisors being required to look beyond the traditional ambit of insurance and involve other regulators.

#### **5. The key to understanding microinsurance can be summed up in one word: simplicity. It facilitates sales, understanding and fair services.**

Many speakers demonstrated that a successful microinsurance business model is based on simple products, fast procedures, affordable cover and alternative mechanisms for payments, claims and administration.

Because of the small premiums and margins involved, transaction costs have to be low for both the insurers and the insured. This demands highly efficient products, policies and claims handling processes that avoid misunderstandings.

It has been pointed out in several presentations - as I remember by Craig, Nestor, Brandon and Rakesh - microinsurance has to be seen as a business proposition. Somebody said, 'We are not talking about either 'return on investment' or 'social return'.' Rather it is correct to say, 'Without investment returns there is no social return.'

#### **6. Consumer protection is a core task for insurance supervisors.**

Insurance is a business of trust and is especially challenging, as poor people know little about insurance, their rights and responsibilities. Therefore, the development of financial literacy and capacity is of utmost importance especially in the case of microinsurance.

We have heard some interesting examples:

- avoid conflicts - clear policy terms is the best strategy;
- offer genuine help - by adding the cellphone number of the Insurance Commission on the MI policy;
- take poor people seriously - by using the complaints mechanism they are used to.
- Insurers need to develop this new business with
- products that are simple yet cover the main risks of a poor family;
- processes that are lean and cost-effective yet administer a large pool;
- prices that are affordable yet fair for a significant service;
- people that sell and administer microinsurance continuously and ethically.

We should not forget the service providers working in the background. We miss an important opportunity by not giving them credit in this business. We as development organisations support them. Reinsurers, training institutes or networks can organise dialogue meetings with the supervisor to

- support awareness campaigns,
- train product development and sales staff, or
- introduce a code of conduct.

## **7. Concertation among sector policies and public and private stakeholders is a must.**

As we have learnt from the various presentations there is a large untapped market. This is indeed a huge potential for private sector engagement. I was truly impressed by the variety of innovations in markets like Brazil, India and South Africa as shown in various presentations.

Having a sustainable and value-minded supply of insurance for the poor, along with low-income earners who are financially capable requires concerted action by all stakeholders.

Many speakers pointed out that the public and private sectors need to engage in dialogue, cooperation and public-private partnerships.

There is also a need for comprehensive capacity development at all levels of the insurance sector as part of an overall financial system. Here lies a huge potential for partnership between the private sector, authorities and international development cooperation.

## **8. Diverse providers are relevant.**

There are various insurance providers. Depending on the jurisdiction, each type plays their role and challenges the supervisor differently. The work done to date has identified that Mutuals, Cooperatives and other Community-based Organisations (MCCOs) do play an important role in improving the effective provision of insurance services to population groups that would otherwise be underserved or not served at all.

As we heard from Craig, mutuals have a long tradition of promoting access to insurance. Many of them want to grow. For that, they would need to enter the formal insurance sphere. On the one hand, the capacities of the mutuals themselves and also the supervisors may be constrained. On the other hand, they are the ones that are close to the poor, know how to approach this client segment and are trusted by the poor. A regulatory standard we can already agree upon is to 'formalise informal providers that exceed a certain size limit.'

## **9. Formalisation is an important strategy in countries that have many significantly active yet informal insurers.**

Insurance supervisors in some countries face serious challenges with respect to informal insurers.

- They need to identify such schemes. And they may find many large ones, as in the case of South Africa or the Philippines.
- The schemes might fall under the ambit of another supervisor that is not open to working with the insurance sector.
- The supervisor may not have the capacity to deal with them.

If formalisation is the way to go, such schemes may pose a significant burden on supervisory resources especially if there are many institutions.

However, the supervisors' mandate of policyholder protection requires that in cases where there are many institutions that are not formally covered by insurance regulations, supervisors need to develop and implement appropriate transitional arrangements.

Implementing proportionate regulation and supervision is often the best. However the development of a tiered regime can be a heavy burden and a long-term task. In this matter, supervisors are challenged to balance the need for adequate supervision and ultimate quality.

On the other hand regulation can also imply significant burden for the insurer. Hennie cautioned us that costs matter profoundly and margins are small in microinsurance as demonstrated by the Brazilian case. Be careful with regulatory burden!

Formalisation has to be carefully considered, as it is a costly and lengthy process. However, when informal schemes reach a certain size, the regulatory body may need to step in. Formalisation will permit informal actors to upgrade and thereby provide the basis for large-scale and sustainable insurance delivery to the poor. Each jurisdiction has to define its own threshold for this. If entry requirements are lowered, supervisory capacity must be considered from the outset.

All this should happen under the premise of efficiency, fairness and proportionality. Proportionality ensures that regulation is tailored to the risks, nature and size of the microinsurance operations. These principles are important to move forward.

These matters are expected to be the subject of more elaboration when the Joint Working Group moves forward with their workplan to provide more elaborative standards and guidance regarding formalisation issues.

**Ladies and gentlemen,**

We have enjoyed this excellent platform for dialogue and capacity building for supervisors over the past two days. We expect that such events help replicate and further advance the policy and regulatory innovations developed by some jurisdictions.

On behalf of the Microinsurance Network and Access to Insurance I can say we are very happy and proud to closely cooperate with IAIS and its members in contributing to these efforts on several fronts. The member jurisdictions are those who make the difference and we have many of those champions with us.

Finally, I would like to thank the many people and organisations that have joined hands in pushing forward our joint access to the finance agenda and who have helped realise this groundbreaking event.

- I would like to thank the Financial Stability Institute especially Gunilla Borer and Bettina Müller for hosting this event for the second time and giving us a platform for mutual learning and exchange. Thank you for the lovely arrangement which made productive discussions easy
- The IAIS Secretariat, represented by Arup and Yoshi and
- all the members of the Joint Working Group
- all our dedicated speakers and facilitators for their excellent and professional contributions that brought news from so many countries, succinctly analysed the most challenging issues, and synthesised the essence brilliantly
- and most importantly, thank you all for your active participation and for making this event lively and down-to-earth with your expert contributions, comments and questions.

I would like to encourage you to join the IAIS MIN Joint Working Group as an ongoing platform for dialogue and learning.

We hope to see you again and look forward to supporting you in being agents of change in your countries and champions in your regions.

I wish you all a safe trip home. Good-bye!