Access to Insurance Initiative
A global programme for sound regulatory and supervisory frameworks

8th Consultation Call: 22 January 2015
“Formalization”
1. Key steps for formalization (Michael Hafeman)

2. The magnitude of informality (Martina Wiedmaier-Pfister)

3. Country examples
   a) Philippines
   b) CIMA/Inter-African Conference of Insurance Supervisors
1. Key steps for formalization

a. Obtain a clear picture of existing informal activities

- Entities underwriting insurance risks
  - MFIs, MCCOs, funeral parlors, pilots, etc.
  - Form, ownership, management, scope of activities

- Others involved in the delivery chain
  - Intermediaries, retailers, telecoms, etc.
  - Registration requirement might aid in identification
b. Identify possible and preferred outcomes

- Licensing or transfer of risks to licensed entities
  - Regular or special licenses
  - With or without changes in business models

- Consider implementation issues
  - Numbers, industry structure, supervisory resources, support for enforcement

- Consider how customers will be protected
c. Take steps to achieve acceptable outcomes

- Consider specific actions needed to get from current states to various outcomes
- Develop clear processes and realistic timeframes
  - Others might be able to assist, such as apex organizations, industry organizations, etc.
- Identify contingency plans
- Enforce the transition plans
2. The magnitude of informality

Informality bears important threats such as consumer protection risks and regulatory arbitrage.

Common **faces of informality** in inclusive insurance markets:

- Service providers (MFIs, cooperatives, retailers) who run an in-house insurance scheme for clients or members
- Funeral homes who carry risk but don’t have a license
- Master policyholders who avoid an agent license
- Government schemes without an insurance license in agricultural or disaster insurance
- Pilot projects that are unlicensed in health, livestock, or any other risk area
1 – Informality in Philippines (back in 2006):
- Cooperatives self-insuring their members
- MFIs insuring their credit clients

2 – Strategic approach of the Insurance Commission, Central Bank, Cooperative Development Authority and Department of Finance - National Credit Council:
- 2006: IC Circular creating Microinsurance Mutual Benefit Associations
- 2010: National Microinsurance Strategy + Regulatory Framework + Joint Memorandum Circular
- 2010: Central Bank Circular BSP 683 on Rural Banks as insurance agents
3. a) Philippines

3 – Options for transformation: Informal providers could
   ▪ partner with a licensed underwriter as agent
   ▪ form an insurance entity such as Microinsurance Mutual Benefit Association (other types of insurance entities like commercial company and coop insurance society are other options)
   ▪ Have its members join an existing authorized cooperative insurance society or an MI-MBA

4 – Key features of formalization:
   ▪ New type of provider (MI-MBA) – and MI agent license
   ▪ Transitional process
   ▪ Joint effort of various authorities
   ▪ Capacity of supervisor

5 – Outcomes:
   ▪ 2013: 40 Rural Banks licensed as agents (25 active)
   ▪ 2013: 20 MI Mutual Benefit Organizations serving more than 7.5 million insured
3.b) CIMA

- 14 Countries
- Population ~ 146 millions inhabitants
- 60% of the population/economy = informal sector
- Economy is driven by Agriculture (~ 30% GDP)

THE INSURANCE INDUSTRY

- 161 licensed insurers
- Premiums = 2 billion dollars ~ 1% GDP
- Less than 10% of the population covered by an insurance contract
- There is a lot of “informal” insurance activity (mostly in the solidarity-based associations and MFIs)
  - “Informal” is assumed to represented 60% of the activity
“Formalization” - The process:

- **Principle: “informal is illegal”**
  \((\text{Regulations require entities to be licensed before starting insurance operations – art. 326}).\)

- **CIMA Approach to “formalization”:**
  - New regulation enacted
  - Training and Sensitization
  - Deadline (1-3 years) to comply
  - Enforcement
"Formalization" - Challenges and Perspectives:

- Many of the players of the informal sector need to be registered (people should be identified before supervised)
- The informal sector needs to be well organized
- The microinsurance regulation (adopted in July 2012) seeks to include those "informal" insurers
- Microinsurance regulation needs to be finalized before a deadline is given to informal actors to comply.