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

5th Consultation Call: 28 August 2014, 4 pm CEST
“Product Oversight in Inclusive Insurance”
1. Different Approaches of Product Oversight (Michael Hafeman)

2. Product Oversight from an Inclusive Perspective (Martina Wiedmaier-Pfister)

3. Country examples
   a) USA/NAIC (4pm) - Eric Nordman
   b) Brasil/SUSEP (4pm) - Regina Simoes/Maria Alves
   c) Europe/EIPOA (4pm) - Alexandra de Jong
1. Determining your approach to product oversight

- What are your objectives?
- What are the biggest risks to their achievement?
- How effective are the mitigants and remedies?

➢ The answers to these questions can guide you to an appropriate approach
What are your objectives?

- Promote fair treatment of policyholders
- Reduce risk of insurer failure
- Encourage innovations to enhance access
- Maintain an orderly market
- Ensure compliance with legal requirements
- Place primary responsibility on the insurer...

➢ Objectives can conflict, so weigh their importance
What are the biggest risks to their achievement?

- Products do not meet consumers’ needs
- Unfair or excessive premium rates
- Inappropriate policy provisions or unclear wording
- Inadequate premium rates
- Untested approaches to marketing, distribution, premium collection, administration...
- Operational failures
How effective are the mitigants and remedies?

- Technical capabilities of the insurers
- Product development oversight by the insurers
- Market conduct oversight by the insurers
- Capabilities of the distribution system
- Level of disclosure required
- Familiarity of consumers with the products
- Capacity of the supervisor to provide oversight
- If a problem occurs, what is the exposure of consumers to loss? Can losses be recouped?
Determining your approach to oversight

- Risks high, mitigants weak: pre-approval
- Risks and mitigants balanced: file-and-use
- Risks low, mitigants strong: monitor
2. “How effective are the mitigants and remedies?”

...in the perspective of inclusive insurance markets

- **Technical capabilities of the insurers**
  - are often low, takes time to build them
  - of the MI products registered, often, only a small share is marketed effectively and is producing massive sales

- **Market conduct oversight by the insurers and**

- **Capabilities of the distribution system**
  - innovative channels are often outside of the regulated sphere
  - masses of agents and changing agents
  - new approaches to controls by insurer required
“How effective are the mitigants and remedies?”
in the perspective of inclusive insurance markets

- Level of disclosure required
  → what is understood by the client?
- Familiarity of consumers with the products
  → generally low!
- Capacity of the supervisor to provide oversight
  → staff is new to MI
  → can takes 6 months until a product is approved
- If a problem occurs, what is the exposure of consumers to loss? Can losses be recouped?
  → one bad experience can “kill the relationship”
  → cost of complaints can be prohibitive for client
Insurance regulation in the USA occurs at the state level

The USA is made up of 56 independent insurance supervisors

By premium volume 50 of the U.S. jurisdictions are within the top 100 jurisdictions worldwide

The California insurance market is roughly the same size as France or Germany

The New York insurance market is slightly smaller than the Italian market and larger than South Korea

Colorado, Russia and Finland have roughly equivalent premium writings
States vary widely with respect to approaches to product regulation

Types of approaches include:

- Prior Approval
- File & Use
- Use & File
- Flex Rating
- Informational Filing
- Filing of a list of current policy forms
- No Filing
Product oversight is driven by consumer protection laws and regulations

Policy forms are reviewed to assure that they:

- Meet the minimum requirements of state consumer protection laws and regulations
- Deliver expected benefits to consumers
- Do not contain misleading or deceptive provisions to disadvantage the consumer
Regulatory philosophies

- Prior Approval helps eliminate unfair methods of competition and reduce deceptive business practices before a product is sold to the public.

- File & Use or Use & File helps insurers with speed to market and protects consumers by providing for withdrawal of approval if forms do not meet regulatory requirements.
Some important considerations of “best practices” for policy form review:

- Is the policy form an insurance contract? If so, what type?
- Is the insurer licensed to offer this line of business?
- Is the policy form for a legal purpose?
- Does the policy form contain an acceptable risk transfer?
- Does the insuring agreement contain a clear and concise statement of what the filer is offering to the policyholder?
- Does the policy form contain a statement regarding the consideration that the policyholder is providing to the insurer?
More “best practices:”

- Does the policy form contain clear definitions regarding who is accepting the risk transfer & who is covered under the contract?

- Does the policy form define terms that might need to be explained to the policyholder?

- Are the insurer’s coverage agreements and limits of liability clearly spelled out in the contract?

- Are any coverage limitations or exclusions clearly spelled out and compliant with laws, regulations and related case law?
Some important statistics about the USA:

- Most filings are submitted electronically through the NAIC SERFF system (648,150 filings processed in 2013)
- There are 1,200 people in the states charged with some aspect of product review
- There are 500 people involved in market conduct regulation, including some post-review of product filings
- There 2,600 people involved in handling consumer complaints and enforcement
Insurance Department Staff Breakdown - 2013

- Executive, 5.7%
- Administration, 6.9%
- Legal, 5.9%
- Actuarial, 10.4%
- Financial Regulation, 18.8%
- Market Conduct Regulation, 4.3%
- Antifraud, 10.2%
- Consumer Affairs, 12.4%
- Licensing, 6.1%
- Information Systems/Technical Services, 4.7%
- All Other (including Commissioner), 14.5%
3b) Product Oversight in Brazil
SUSEP adheres two approaches:

- **“File and Use” for general insurance lines:**
  - The product is approved for launch after SUSEP performs a quick analysis and release the product registration number to the insurance company

- **“Approve and Use” for life insurance lines, with saving component:**
  - A prior approval is required before the product can be marketed

- 8,515 products registered at SUSEP (174 lines) and 162 supervised companies
“File and Use” for microinsurance lines

- 30 microinsurance products and 16 insurance companies offering microinsurance
- Microinsurance analysis process takes 3 days on average
- Standardized coverage and exclusions
Insurance companies upload their products through an electronic web system

- A commitment letter, informing that the product is in compliance with the rules in force, together with a receipt of the electronic registration, should be also submitted to SUSEP.

Products are available to all interested parts at SUSEP website.

This System is linked to the Statistical/Accounting database, allowing retrieving information such as market share, claim ratio, premiums amount by line of insurance and so on.
Product Oversight in Brazil

Types of information issued by the system:

- Regarding the product: time analyses, product status analyses, percentage of filed products already marketed, etc

- Regarding the insurance market: market share, claims ratio, premiums amount by line of insurance and so on
1. Amount of products by insurer
2. Company X - Portfolio
5. % products already marketed

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Product filed</th>
<th>Product marketed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Y</td>
<td>444</td>
<td>115</td>
</tr>
</tbody>
</table>

26%
3c) Product Oversight in Inclusive Insurance: Europe

- Who is EIOPA?

- Product Oversight and Governance in the EEA:
  
  o Current situation:
    - Few countries have relevant requirements in place
    - Product pre-approval not allowed

  o Consumer protection issues (examples):
    - Mis-selling of unsuitable products
    - Poor product design
Product Oversight in Inclusive Insurance: Europe


- On-going initiative under EIOPA’s lead:
  - Guidelines: addressing activities of manufacturers
  - Public consultation anticipated in Q4 2014 (more details to become available at https://eiopa.europa.eu/)

- Future plans:
  - Address also distributors
Questions?

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