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

5th Consultation Call: 28 August 2014, 10 am CEST
“Product Oversight in Inclusive Insurance”
1. Different Approaches of Product Oversight (Michael Hafeman)

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

1. Country examples
   a) India/IRDA (10am) - Sriram Taranikanti
   b) South Africa/FSB (10am) - Jacky Huma
   c) Europe/EIOPA (10am) - 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
3a) Insurance in India - Background

• India - a growing market both in respect of Life and non-Life Products
• The Insurance sector was opened for private participation in the year 2000
• Prior to that only public sector companies were operating
• Currently 24 life insurance, 23 Non-Life insurance companies and 5 standalone health insurers are operating in the country
• One Indian Reinsurer is also present in the country
Product Design in India

• Product Design is one of the critical components of Market Conduct
• Specific relevance to Inclusive Markets comprising low income segments & low financial awareness
• Guidelines for Product design issued by IRDA
• Similar guidelines issued for Microinsurance and for targeting Rural/Social sectors
• Specific targets given to each Insurers in Rural/Social sectors
Product Oversight in Inclusive Insurance

- Product oversight in India is done by Regulator through File & Use system
- Product Approval Committees consisting of Actuaries and subject matter experts involved
- Each filed product is analysed from Actuarial angle, and Compliance with Regulations
- Simplicity of language in policy forms and Sales literature also ensured
- Every Approved product is given UIN (Unique Identification Number)
- Similar procedure followed for all products including those for Inclusive markets
- Microinsurance products are specifically approved
Product Oversight in Inclusive Insurance

- Micro Insurance Products play a very important role in Inclusive markets.
- Micro Insurance in India defined in terms of Product parameters such as
  - Extent of Risk coverage (Sum Assured)
  - Certain product categories are allowed
- Products are reviewed by Regulator through File and Use system and approved as MI Products.
- Regulations allow higher remuneration to intermediaries
- Additional services at doorstep of customers - relevant for remote inaccessible areas.
- Regulations under review to introduce more safeguards
- More protection to customers from inclusive segments
Product Oversight in Inclusive Insurance

No. of Products in

• Life : About \textbf{500} of which \textbf{14} products are Micro Insurance products.

• Non Life : About \textbf{2300} Products/Add-ons of which \textbf{95} are Micro Insurance Products

• Health : About \textbf{566} of which \textbf{16} products are Micro Insurance Products
Product Oversight in Inclusive Insurance

Product Features needed for Inclusive markets

• Simple & Inexpensive

• Easily understood

• Bought and not sold products

• Distribution cost involved is lesser
Product Oversight in Inclusive Insurance

• Proportionality issues – Financial Inclusion vs Consumer Protection

• IRDA liberal in Licensing Process and Commissions

• Limited products sold through 125000 Common Service Centres
3b) South Africa – Microinsurance Product Features and Standards

(Policy proposals published in July 2011)

- **Risk-only policies**
  - Only risk benefits with no surrender value.
  - No savings component is included

- **Defined benefit caps**
  - A maximum benefit of R50 000 (USD4 663) per insured life, per insurer for any insurance related to a death event.
  - A maximum benefit of R50 000 (USD4 663) per insured life, per insurer for all other risk events.
  - A maximum benefit of R100 000 (USD9 326) per person, per insurer, per contract period for all insurance on assets only
Maximum contract term
- Contract term of up to but not exceeding 12 months, i.e. annually renewable contracts with annually renewable premiums.

Underwriting
- MI insurers should be able to underwrite policies in the manner they consider most appropriate, be that on an individual or group basis

Waiting periods
- Waiting periods will be at a maximum of 6 months for death and disability. No waiting period for accidental death

(Policy proposals published in July 2011)
Exclusions

- No exclusions will be allowed for pre-existing conditions.
- Exclusions would be allowed for 2 years in life policies in respect of suicide only

Right to monetary benefit

- The right of monetary benefit should be allowed but no administration fees should be charged to the monetary benefit

Claims payments

- All valid microinsurance claims should be paid within a period of 48 hours after the insurer received all the requisite documentation.

(Policy proposals published in July 2011)
- **Grace period**
  - Microinsurance products should have “same terms reinstatement” provisions; should reset to 1 month on reinstatement.
- **Actuarial certification**
  - Initial pricing and subsequent price changes on microinsurance policies have to be signed off by an actuarial technician.
- **Product regulation**
  - Product review will take place on a file and use basis.
3c) Product Oversight in Inclusive Insurance: Europe

- Who is EIOPA?

- Product Oversight and Governance in the EEA:
  
  - Current situation:
    - Few countries have relevant requirements in place
    - Product pre-approval not allowed
  
  - Consumer protection issues (examples):
    - Mis-selling of unsuitable products
    - Poor product design
• High-level principles for banking, securities and insurance sectors (published in 2013; available at https://eiopa.europa.eu/joint-committee/index.html)

• 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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