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TORONTOCENTRE
Global Leadership in Financial Supervision

Regulation and Supervision Supporting Inclusive Insurance Markets

Kingston, Jamaica
October 3-7, 2016
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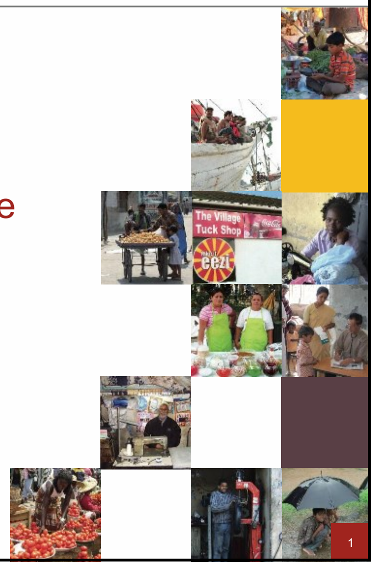

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Basis for the training

- **Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets**
  - IAIS
  - October 2012
- **Core Curriculum Module on Regulation and Supervision Supporting Inclusive Insurance Markets**
  - IAIS and Access to Insurance Initiative (A2II)
  - Available in 2013

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Overview

A. **Introduction**
B. **Market and policy environment**
C. **Role of the insurance supervisor**
D. **Prudential issues**
E. **Market conduct issues**

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A. Introduction

- **Importance of financial inclusion**
- **Barriers to inclusive insurance markets**
- **Challenges in removing the barriers**
- **How this module can help**
- **Commonly used terms**

Inclusive financial markets

- Enable all consumers to readily access products and services that are appropriate to their needs

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Benefits of inclusive financial markets

- Help reduce poverty
- Enhance social welfare
- Promote economic development
- Contribute to financial stability

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G20 Principles for Innovative Financial Inclusion

1. Leadership
2. Diversity
3. Innovation
4. Protection
5. Empowerment
6. Cooperation
7. Knowledge
8. Proportionality
9. Framework

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Sustainability

- Reach a large number of customers with useful and affordable products and services
- Providers meet financial commitments
- Providers treat customers fairly
- Customer protection should not be compromised

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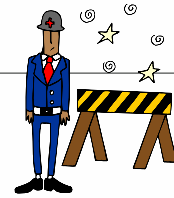
Barriers and innovation



- Less than full inclusion means there is some barrier leading to some people being underserved
  - Many types, including regulation and supervision
  - Barriers can exist anywhere along the delivery chain
  - Can limit the supply of or the demand for insurance
  - Not just cost – so issues are not just about “little” versions of policies
- Innovations are needed to overcome, remove, or work around barriers

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Supply-side barriers

- Lack of business incentive
- Lack of information
- Lack of expertise
- Operational factors

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Demand-side barriers

- Low income
- Irregular income
- Financial illiteracy
- Lack of insurance tradition
- Religious reasons
- Lack of trust

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Informal insurance

- A common response to barriers
  - Insurance that is exempt from regulation, or
  - Illegal insurance activities

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Ultimately, insurance should be formal

- **Informal insurance is "insurance" (in the mind of the consumer) that is from an issuer that is illegal or exempt**
- **Barriers sometimes mean formal insurers move away from the client group making them "underserved"**
  - needs remain, but without formal cover
  - find solutions in informal mechanisms and schemes
- **Reconsider exemptions and exclusions in light of the objectives of insurance supervision**

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Inappropriate regulation and supervision

- **Barrier to supply**
- **Barrier to demand**

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Examples of regulatory barriers

- Restrictions on types of distributors
- Restrictions on legal forms of distributors
- Education requirements
  - Training costs
- Licensing requirements
  - Aggregators versus their staff
- Commission limits
  - In light of different ranges of services
- Restrictions on services that may be provided
- Disclosure requirements

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Challenges in removing the barriers

- Diversity of barriers
- Need for innovation
- Developing an appropriate, proportionate framework
- Diversity of stakeholders

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How this module can help

- **Focus on the fundamentals**
  - What roles are played by various parties?
  - What risks are created by their activities?
  - Why does a requirement exist?

Commonly used terms

- **Apex organizations**
- **Customer**
- **Effective access**
- **Financial inclusion**
- **Jurisdiction**
- **Microinsurance**
- **Mutuals, cooperatives, and other community-based organizations (MCCOs)**
- **Underserved**

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Group activity – inclusion

Briefly explain how access to insurance in the following situations can help to reduce poverty, enhance social welfare, promote economic development, and contribute to financial stability.

1. **Property insurance for a small merchant**
2. **Medical expense insurance for a poor family**
3. **Crop insurance for a subsistence farmer**
4. **Life insurance for a foreign migrant worker**
5. **Third-party liability insurance for a motorcycle taxi driver**

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Group activity process

- **Discuss within your table group the issues assigned**
- **Develop a response**
- **Select someone to present the results**

- **Timing**
  - 15 minutes for discussion
  - 4 minutes for each presentation

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B. Market and policy environment

- Analyzing the environment
- Demand for insurance
- Products and services
- Channels for delivery
- Insurers
- Policy environment

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Analyzing the environment

- Identify barriers
- Develop goals, strategies, and action plans
- Resources are available
  - Toolkit – access to insurance initiative
  - Examples – published country studies
  - Technical assistance

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Demand for insurance

- **Size of the underserved market**
- **Characteristics of the underserved**
- **Protection needs and preferences**
- **What steps can a supervisor take to remove barriers to demand?**

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Products and services

- **Products and services currently available**
- **Formal and informal**
- **Do the products exhibit the basic features supportive of enhanced inclusion?**
  - If so, have they been successful?
  - If not, are there barriers to including such features?

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Product features supportive of enhanced inclusion

- Relatively low premiums
- Defined and limited cover
- Short policy terms to limit risk
- Few, if any, exclusions
- Preference for group underwriting
- Simple and rapid claims processing while still controlling for fraud

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Channels for delivery

- Channels currently being used
- Relative importance in reaching various types of customers
- Formal and informal
- Do the channels support enhanced inclusion?
  - Overcome geographic barriers
  - Cost-effective
  - Leverage infrastructure
  - Overcome mistrust
- If not, are there barriers to doing so?

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Insurers

- Entities currently underwriting insurance risk
- Formal and informal
- What do the insurers look like?
  - Legal form
  - Ownership
  - Nature of insurance business
  - Scale of insurance business
  - Importance of insurance to overall business
  - Insurance regulatory status
- Are there barriers to entry or formalization?

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Discussion – insurers

Consider the following questions in the context of your respective jurisdictions

1. What types of microinsurance providers are operating?
2. What is their current legal status?
3. Do any apex organizations exist? If so, what services do they provide?

Policy environment

- Government policy on financial inclusion
- Objectives and responsibilities
- Insurance regulation
- Insurance supervision

Group activity – environment

Consider the following questions in the context of your respective jurisdictions

1. **Has a comprehensive analysis of the market and policy environment been performed?**
2. **If so, what were the three most significant findings or recommendations arising from the analysis?**
3. **If not, which aspects of the environment do you think would be the most difficult to analyze?**

Group activity process

- Discuss within your table group the issues assigned
- Develop a response
- Select someone to present the results

- Timing
  - 10 minutes for discussion
  - 3 minutes for each presentation

C. Role of the insurance supervisor

- Supervisory objectives
- Importance of having a supervised market
- Providing scope for innovation
- Proportionality
- Definition of microinsurance in regulation
- Dealing with diverse market participants
- Dealing with diverse authorities
- Resource implications

Supervisory objectives

- Traditional objectives
  - Fair
  - Safe
  - Stable
- Inclusiveness objective
- Achieving an appropriate balance
- Variety of authorities
  - Objectives
  - Responsibilities
  - Are there gaps, overlaps, or potential conflicts?

Importance of having a supervised market

- All customers deserve protection from undue loss
- Failures can affect market confidence and economic growth, even if no systemic risk
- Small policies and small insurers do not mean small risk of failure
- A loss that might be small to some could be catastrophic to others
- Underserved might be less capable of avoiding or dealing with problems

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Providing scope for innovation

- Potential areas of innovation
  - Entities underwriting insurance
  - Insurance products
  - Channels for delivery
  - Product explanation and documentation
  - Administration
- Does legislation provide scope for innovation?
- If not, are there alternative ways to meet supervisory objectives?

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Mixed entities

- Many innovations occur through mixed entities
  - Large: (for example) telecom companies, commercial entities, other financial institutions
  - Small: (for example) health care providers, funeral parlors

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Proportionality

- Respond to the nature, scale, and complexity of risks
- Particularly important with small policies, small insurers, and the need for innovation
- A measure should not go beyond what is necessary to attain supervisory objectives
- Similar risks should receive equivalent treatment

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Context for proportionality (1)

- Why is it needed?
  - To facilitate innovation
  - To allow formalization of the informal
  - To avoid regulation and supervision being a barrier to inclusive markets

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Context for proportionality (2)

- **When is it needed?**
  - Designing requirements
  - Implementing requirements
  - Assessing adherence to requirements
  - Exercising supervisory powers
- **Who can be affected?**
  - Customers
  - Insurers
  - Supervisors

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Absolute minimum requirements

- **Registration: for pilots or transitional arrangements**
  - Identify the organization, its form, and require minimum reporting to the supervisor
- **Minimum reporting**
  - Balance sheet and income statement that identifies the insurance business separately, shows the effect of reinsurance, identifies claim and operating expenses separately, and is at least annual or on request
  - Note that these are higher standards than a literal reading of ICP 9
- **Market disclosure**
  - Everyone should be able to determine their market share and benchmark their performance, against the market as a whole

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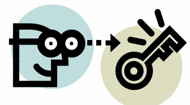
Absolute minimum requirements

- **Conduct of business**
  - Customers should:
    - •Be aware that they have an insurance product
    - •Know the identity of the insurer
    - •Know the manner that the services under the product should be accessed
    - •Know when the insurance service ceases
    - •Know their costs and obligations under the product



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Definition of microinsurance in regulation

- **Qualitative definitions**
  - Insurance that is accessed by low-income populations, provided by a variety of different entities, but run in accordance with generally accepted insurance practices (which include the ICPs)
  - Appropriate for many purposes

- **Quantitative definitions**
  - Might be needed to allow different treatment
  - Keep the purpose in mind
  - Faulty definitions can have unintended consequences

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Criteria for definitions

- Definitions should focus on products, not customers
- Definitions that focus on the providers have the potential to create an un-level playing field
- Definitions that focus on microinsurers should clearly delineate microinsurance business from others and will require a definition of a risk category or product
- Quantitative elements of definitions should be set at the highest possible level to ensure the defined product is as inclusive as possible
- Quantitative elements should consider the need to align the resulting business profiles with the expected proportionate regulation and supervision
- Would the definition inadvertently exclude target customers, providers, products, or innovations?
- Consider a definition that involves supervisory discretion

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Discussion – definition (1)

The authorities in a jurisdiction are considering adopting the following definition:

- "Microinsurance product means an insurance product that is designed to meet the needs of low-income customers, where the amount of premiums, computed on a daily basis, does not exceed 6 percent of the national daily minimum wage rate and the maximum guaranteed benefits do not exceed 600 times the national daily minimum wage rate. In the case of a bundled product, the maximum amounts of premiums and guaranteed benefits apply separately with respect to each component of the product."

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Discussion – definition (2)

1. What are three reasons that this definition might not be supportive of an inclusive insurance market?
2. What changes would you propose to the definition if its ultimate purpose is to facilitate the licensing of microinsurance-only agents?
3. What changes would you propose to the definition if its ultimate purpose is to limit the exclusions allowed in microinsurance products?

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Dealing with diverse market participants

- Lack of familiarity – both ways
- New roles even for traditional participants
- Consider functions, risks, and controls
- Consider objectives and how insurance contributes
- Communicate actively, including with those in the informal market
- Adjust the regulatory framework, if necessary

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Dealing with diverse authorities

- Understand objectives and responsibilities
- Seek synergies
- Reduce the risk of arbitrage
- Document information exchange and confidentiality agreements

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A range of other authorities

- Central Bank
- Payment systems
- Revenue authorities
- Telecommunication regulators
- Health authorities
- Agriculture department
- Social protection department
- Others?

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Resource implications

- Policy development
  - Initial and ongoing
  - Regulatory and supervisory
  - Consider the preconditions
- Dealing with limitations
  - Skills and data
  - Take action and encourage others
- Ongoing supervision
- Obtaining resources
  - Cooperate with others
  - Consider transitional and ongoing needs
  - Strive for fairness and sustainability

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External enablers (1)

- Capacity builders
  - Actuaries
  - Technical assistance (TA) providers
  - Academics
- Operational specialists
  - Intermediaries
  - Third-party administrators
  - Technology suppliers
  - Extension services and infrastructure

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External enablers (2)

- Funders
  - Donors
  - Investors
- Promoters
  - Insurance associations
  - Conferences and meetings
- Microinsurance Network – facilitates information exchange

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Group activity – stakeholders (1)

Insurance penetration in your jurisdiction is very low compared to others in your region, although various informal insurance mechanisms also exist. You have developed an initial action plan to enhance the inclusiveness of the insurance market, which consists of:

- undertaking a comprehensive analysis of the market and policy environment
- amending legislation to add "inclusiveness" to the objectives of your authority
- formalizing informal insurers.

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Group activity – stakeholders (2)

You intend to meet with various stakeholders to seek support for your plan. Each group will be assigned one of the following stakeholders to deal with:

1. **The head of your supervisory authority**
2. **The Minister of Finance**
3. **The Governor of the Central Bank**
4. **The President of the Insurance Association**
5. **The head of the Microfinance Association (many members offer informal insurance)**
6. **The head of a social welfare organization**

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Group activity – stakeholders (3)

Consider the following, <u>from your assigned stakeholder's point of view</u>:

1. **What is wrong with the current situation?**
2. **What are the advantages of your plan?**
3. **What are the disadvantages of your plan (and how might you deal with them)?**
4. **What good things about the current situation will remain unchanged under your plan?**
5. **What do you want from them?**

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Group activity process

- **Discuss within your table group the questions on the previous slide**
- **Develop responses**
- **Select someone to present the results**

- **Timing**
  - 30 minutes for discussion
  - 5 minutes for each presentation

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D. Prudential issues

- **Licensing**
- **Operations**
- **Solvency regime**
- **Supervision**

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Licensing

- Importance of licensing
- Regulated insurance activities
- Entities to be licensed
- Implementation of licensing

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Importance of licensing

- Define conditions for access to the market
- Limit access to those meeting the conditions
- Balance is essential
  - Weak requirements can expose customers to excessive risk
  - Onerous requirements can reduce their access to insurance

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Regulated insurance activities

- Broad scope is generally better
- Avoid exempting insurance from regulation
- Avoid restricting desirable insurance activities

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Entities to be licensed

- Types of entities eligible
- Mixed entities
- Pilot schemes
- Small entities

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Types of entities eligible

- Wide range enhances access
  - Accommodate current or future MCCOs
- Avoid exemptions unless appropriate alternative protections
- Avoid restrictions unless they support supervisory objectives
  - Institutional form
  - Domicile of entity or owners
  - Nature of owners
  - Specialization
- License should be aligned with capabilities

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Types of providers

- Traditional insurers
- Dedicated microinsurers
- Mutuals, cooperatives, and community-based organizations – MCCOs
- Public-private partnerships
- For-profit or not-for-profit
- Current legal status
  - Regulated under insurance law
  - Regulated under another law
  - Informal and unregulated

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Dedicated licenses

- **Some jurisdictions offer a special license for "dedicated microinsurers" or "specialist microinsurance intermediaries"**
  - More focused scope of licenses
  - Some additional tasks possible, not only reducing obligations
  - Proportionate requirements (not concessional compared to risk) with limits

Mixed entities

- **Protect policyholders from risks of noninsurance businesses**
  - Require separate legal entity to underwrite insurance
  - Transitional arrangements might be needed
- **Ability to package life and nonlife insurances enhances access**
  - Composite insurers
  - Products that all insurers can underwrite
  - Perhaps limited to microinsurance

Pilot schemes

- Used to test an approach and learn what modifications are needed
  - If regulated insurance activities are involved, customers should be protected
- Licensed insurer might use
- Other entities might use

Use of pilots by licensed insurers

- Sometimes within the scope of their license
- Sometimes beyond the scope of their license or legislation

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Use of pilots by other entities

- Can create difficult issues
  - Customer protection
  - Ability to supervise
  - Unfair competition
- Accept only on a temporary basis, with transitional arrangements
  - Registration
  - Separate identification of assets
  - Deposit
  - Notification of customers
  - Alternative protections

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Small entities

- Some entities are too small to be licensed
  - Technical – risk pooling
  - Operational – business processes
- How can you determine the minimum size?
  - Stochastic modeling
  - Business financial modeling
  - Benchmark locally and with other jurisdictions
  - Consult with market participants

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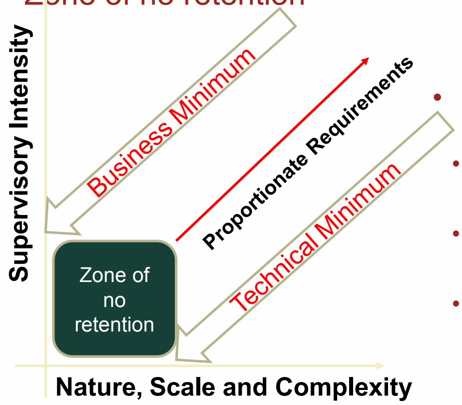
Zone of no retention



- **The simple but challenging truth**
  - There is a place where it is just not safe to be in the long term
  - Below this, entities can still operate as distributors
  - Proportionality can help a lot but has an absolute minimum bound

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Implementation of licensing

- **Common implementation challenges**
- **Formalization and transitional arrangements**
- **Changes of control and exit from the market**

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Common implementation challenges

- Some entities might not realize their activities require a license
- Some entities might not be eligible for a license
- Licensing requirements and procedures might need to be adapted
  - Small entities
  - Different types of entities
  - Pilot schemes
- Small or informal operators might have difficulty understanding or coping with requirements and procedures
- Take steps to remove unnecessary barriers

Formalization and transitional arrangements

- Formalizing informal insurance is generally better than shutting it down
- Start with a clear picture of the current situation and the preferred outcomes
- Protections during a transition are incomplete
  - Transition period should be limited
  - Activities should be constrained
- Processes should be clear and transparent
  - Contemplate contingencies
  - Leverage resources
- Restrictions should be proportionate
- Arrangements should not be unduly attractive

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Changes of control and exit from the market

- Informal insurers that cannot meet formalization requirements
- Failed pilot schemes undertaken by unlicensed entities
- Mutualization or demutualization

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Operations

- Corporate governance
- Suitability of persons
- Internal controls and risk management

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Corporate governance

- Requirements exist to protect the interests of stakeholders
  - For insurers, customers should have high priority
- Nature of conflicts can differ by type of entity
  - MCCOs might not have shareholders
  - Conflicts can still arise among types or generations of policyholders
- MCCOs might have difficulty obtaining a strong, diverse board
  - Management might end up controlling the board
- Unlicensed entities might lack customer-focused governance mechanisms
- Supervisors should ensure governance risks are being dealt with

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Suitability of persons

- Small insurers and MCCOs can face particular difficulties
- Encourage strengthening of competence
- Encourage broadening of boards to include non-members of MCCOs
- Ensure that suitability requirements are appropriate

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Internal controls and risk management

- Innovative approaches can create control risks
- Involvement of mixed and noninsurance entities can create control risks
- If activities are restricted, internal control and risk-management needs may be reduced
- Small insurers often face difficulty

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Discussion – governance

The board of a small community healthcare cooperative is drawn from the membership of the organization.

1. What are the potential advantages of such a composition from the perspective of the insurance supervisor?
2. What are the potential disadvantages?
3. How would your answers differ if the cooperative was large and operated within a broad geographic territory?
4. What steps might be taken to deal with the disadvantages?

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Solvency regime

- Reinsurance
- Valuation and ERM
- Capital adequacy

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Reinsurance

- All insurers should have access to the reinsurance they need
- Access to reinsurance might be enhanced by:
  - Formalizing informal insurers
  - Allowing conventional direct insurers to assume microinsurance risks
  - Allowing insurers to reinsure microinsurance products that include both life and nonlife coverages with the same reinsurer
  - Allowing insurers to reinsure new or complex risks with foreign reinsurers
  - Encouraging MCCOs to cooperate with one another in arranging reinsurance

Valuation and ERM

- **Leverage expertise**
  - Share actuarial services
  - Develop simplified valuation approaches
- **Restrict operations commensurate with technical and management capabilities**

Capital adequacy

- **Consider the risk characteristics of products and insurers**
- **Methodology should be proportionate**
- **MCCOs can face particular difficulty in raising additional capital**

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Supervision

- Risk-based approach
- Reporting and off-site analysis
- On-site inspection
- Prevention, correction, and enforcement

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Risk-based approach

- Large, complex insurers should be subject to sophisticated risk assessment
- Small, simple insurers might be subject to a more standardized approach
- Synergies with apex organizations and other authorities might be possible
- All relevant entities in the insurance delivery chain should be considered

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Reporting and off-site analysis

- Information should be sufficient
  - Supervisory assessment
  - Market analysis and policy needs
- Requirements should be proportionate
- Analysis by class of business for combination products
- Benchmarks might differ from conventional insurance

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On-site inspection

- Inspection program might differ for small, geographically remote insurers
- Focused inspections of microinsurance activities of conventional insurers might be practical
- Obtain access to all entities in the delivery chain

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Prevention, correction, and enforcement

- Basic framework might be unchanged
- Additional communication of requirements and expectations
- Transitional arrangements should be enforced
- Replacing key individuals might be particularly difficult
- Financial penalties should be proportionate

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Supervisory challenges of MCCOs

- Insurance may be ancillary to main purpose
- Suitability of board
- Disclosure of information to members
- Access to capital
- Fairness and equity in distribution of profits
- Demutualization

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Discussion – risk profile (1)

- A large agricultural cooperative has been providing crop insurance to its members on an informal basis.
- Five persons are directly involved in the operation of the insurance program. None of them have formal training in insurance.
- The cooperative charges premiums sufficient to break even over a five-year period, based on past claims experience. It accumulates a reserve, which is invested in an account at a local bank.

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Discussion – risk profile (2)

- The cooperative plans to set up a subsidiary, for which it will seek an insurance license, as is now required.
- The head of your authority has asked you to compare the likely risk profile of this potential applicant with that of a large and well-run conventional nonlife insurer.

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Discussion – risk profile (3)

What differences are likely within the various risk-assessment categories used by your authority?

- **Financial: assets, liabilities, capital, earnings, group**
- **Operational: ownership, governance, business activities, controls**
- **Market conduct: business activities, controls**

E. Market conduct issues

- **Context for market conduct supervision**
- **SMART Client Protection Principles**
- **Channels for delivery**
- **Conduct of business**
- **Disclosure to the market**
- **Fraud and AML/CFT**
- **Supervision**

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Context for market conduct supervision

- **Focus on the fairness and propriety of dealings with customers**
- **Innovations in products, distribution, and service delivery**
- **Different entities might be involved**
- **Different functions might be performed, even by traditional participants**

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SMART Client Protection Principles

1. **Appropriate product design and delivery**
2. **Prevention of over-indebtedness**
3. **Transparency**
4. **Responsible pricing**
5. **Fair and respectful treatment of clients**
6. **Privacy of client data**
7. **Mechanisms for complaint resolution**

Channels for delivery

- Innovative channels for delivery
- Issues on channels for delivery

Innovative channels for delivery

- Banks
- Microfinance institutions
- Nongovernmental organizations
- Direct marketing
- Direct mail
- Alternative sales forces
- Technology-based distribution
- Retailers
- Post office outlets
- Social and religious associations
- Trade unions
- Specialized microinsurance agents and brokers
- MCCOs

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Rationale for using alternatives

- Quickly achieve scale through the aggregation of consumers
- Gain credibility by exploiting existing relationships
- Leverage off an infrastructure footprint, either physical or virtual
- Obtain access to a transaction platform
- Compensation is sufficient to meaningfully supplement other revenues

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Issues on channels for delivery

- Define the activities subject to regulation
- Accommodate a wide range of channels
- Requirements, commission limits, and restrictions should match the functions performed

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Challenges in dealing with distributors

- They might seek to use control of access to negotiate favorable arrangements for themselves
- They will probably have more interest in distributing insurance if helps to support their core activity
- Relations can involve multiple parties and be difficult to manage, in part reflecting the variety of roles they might play

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Group activity – intermediaries (1)

In a particular jurisdiction, the existing requirements on intermediaries include the following:

- insurance can be sold by agents, brokers, or directly by insurers
- agents must be individuals
- brokers must be corporations
- agents cannot represent more than one insurer in respect of each type of insurance (life or nonlife)
- agents and the principals of brokers must meet suitability requirements, including examinations of their insurance knowledge
- agents and brokers must assess the needs of customers and recommend suitable products.

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Group activity – intermediaries (2)

Work with your group to identify how these requirements might need to change to accommodate the delivery of insurance through:

1. Microfinance institutions
2. Retailers
3. Community healthcare organizations
4. Sales forces of telecommunications service providers
5. Agricultural cooperatives
6. Funeral parlors

Each group will be assigned one of the above.

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Group activity process

- Discuss within your table group the issues assigned
- Develop a response
- Select someone to present the results

- Timing
  - 15 minutes for discussion
  - 3 minutes for each presentation

Conduct of business

- Context for conduct of business supervision
- Product development
- Communication with customers
- Service to customers

Context for conduct of business supervision

- Diversity of customer situations and approaches
  - Universal solutions are impossible
  - Focus on the basics
- Low financial literacy and incomes can make traditional protection measures less useful

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Product development (1)

- Needs and preferences can differ significantly
- Product features supportive of enhanced inclusion
  - Relatively low premiums
  - Defined and limited cover
  - Short policy terms to limit risk
  - Few, if any, exclusions
  - Preference for group underwriting
  - Simple and rapid claims processing while still controlling for fraud

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Product development (2)

- Consider the implications of such product features
- Profit-sharing approaches might differ
- Product approval requirements and criteria might need to be revised

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Communication with customers

- **Information should be clear, realistic, and sufficient**
- **Consider requirements where no advice is being provided**
- **Alternatives to written communication**

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Service to customers

- **Orphan policyholders**
  - Some alternative channels might increase the risk
  - Others, such as group delivery, might decrease the risk
- **Claims payment**
  - Process should be simple
  - Settlement should be timely
  - Requirements should balance the need for speed against the need to assess validity
- **Complaints**
  - Processes should be simple and accessible

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Disclosure to the market

- Information should be similar in scope to conventional market
- Specific requirements should be proportionate
- Needs of MCCO members, as owners, should be considered
- Information should support benchmarking by market participants

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Fraud and AML/CFT

- Fraud risks might differ
  - Customers lack knowledge
  - Simplified processes
  - Nature of products and small amounts
  - Involvement of noninsurance entities
- Supervisory disclosure alternatives
- AML/CFT risks are low
  - Nature of products and small amounts
  - Requirements should be proportionate

Supervision

- Consider more proactive monitoring
- Handbook of Social Performance Indicators for Microinsurance – a useful resource
- Seek opportunities to leverage resources

Possibilities for more proactive monitoring

- Monitoring claims and expense ratios to assess whether microinsurance products are offering reasonable value to customers
- Investigating whether low claims ratios or high expense ratios are caused by inappropriate market conduct
- Analyzing complaints against insurers and intermediaries to identify inappropriate conduct or inadequate processes for dealing with complaints
- Analyzing claims approval rates and claims payment times to help identify slow or unfair claims payment practices

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Review and wrap-up

Topics covered:

A. Introduction
B. Market and policy environment
C. Role of the insurance supervisor
D. Prudential issues
E. Market conduct issues

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A. Introduction

- **Importance of financial inclusion**
- **Barriers to inclusive insurance markets**
- **Challenges in removing the barriers**
- **How this module can help**
- **Commonly used terms**

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B. Market and policy environment

- Analyzing the environment
- Demand for insurance
- Products and services
- Channels for delivery
- Insurers
- Policy environment

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C. Role of the insurance supervisor

- Supervisory objectives
- Importance of having a supervised market
- Providing scope for innovation
- Proportionality
- Definition of microinsurance in regulation
- Dealing with diverse market participants
- Dealing with diverse authorities
- Resource implications

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D. Prudential issues

- Licensing
  - Importance of licensing
  - Regulated insurance activities
  - Entities to be licensed
  - Implementation of licensing
- Operations
- Solvency regime
- Supervision

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E. Market conduct issues

- Context for market conduct
- SMART Client Protection Principles
- Channels for delivery
- Conduct of business
- Disclosure to the market
- Fraud and AML/CFT
- Supervision

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Wrap-up

- Questions
- Comments

Thank you for participating!