

Summary Note on A2ii-IADB Project | 2012 -2016

A2ii-IADB Project: Implementation of Regulatory and Supervisory Standards for Access to Insurance in Latin America and the Caribbean

Increasingly, insurance supervisors in developing and emerging economies are recognising the need to include access to insurance as part of their financial inclusion strategy. Efforts are being undertaken to adapt regulatory and supervisory frameworks so as to enhance the development of inclusive insurance markets and promote sustainable access for the low-income populations in the region.

As demonstrated by this project, defining and implementing these efforts require careful market analysis to ensure that the context is right, as well as the dedication of supervisory authorities to push reforms through.

Project background

The project ‘Implementation of Regulatory and Supervisory Standards for Access to Insurance in Latin America’ was a joint Access to Insurance Initiative (A2ii) – Inter-American Development Bank (IADB) initiative intended to contribute to the growth of the inclusive insurance market in Latin America and the Caribbean. The project focused on Peru, Colombia and Jamaica and was aimed at increasing the availability

of sustainable insurance products tailored to the needs of low-income populations by supporting the partner countries in developing a policy and regulatory environment that supports inclusive insurance.

At the inception of the project Peru, Colombia and Jamaica were at different stages in developing their inclusive insurance markets and regulatory frameworks. Peru was characterised as a growing market that already had two sets of microinsurance regulation in place, the first codified in 2007 and the second a modification in 2009. In Colombia, while there existed a growing microinsurance market, it lacked any official regulatory framework and was instead self-regulated from within the industry. In contrast, in Jamaica there was neither a market nor any regulation for microinsurance in place.

Project Facts at a Glance

Countries: Peru, Colombia, Jamaica

Duration: 45 months (August 2012 – May 2016)

Partners: A2ii (implementation partner of IAIS on financial inclusion), IADB (administrator of MIF) and the **national regulatory entities:**

Peru: Superintendencia de Banca, Seguros y AFP (SBS)

Colombia: Superintendencia Financiera de Colombia (SFC), Bancolombia - Banca de las Oportunidades (BDO)

Jamaica: Financial Services Commission (FSC)

Component 1	Component 2	Component 3
Country Diagnostics	Regulatory Roadmap (RRM) for Supervisory Authority	Regional Dissemination
Description: Analysis of the broader economic and financial sector country context, the demand- and supply-sides, and policy and regulation in place to promote inclusive insurance	Description: Activities depended on the needs identified in each particular country largely based on the diagnostic report	Description: Knowledge-sharing events
Objective: identify the drivers, opportunities for, and barriers to insurance market development to inform recommendations for the industry, policy and regulatory reforms	Objective: (1) develop and implement a Regulatory Road Map (RRM) in each country based on the findings of the country diagnostics, and (2) identify activities to strengthen the capacity of supervisors to eliminate regulatory barriers	Objective: facilitate the process of learning, communicating and catalysing the lessons learned with other supervisory authorities in the region during the project’s execution

Theoretical Framework and Methodology

The development of an appropriate regulatory environment for inclusive insurance requires the tailoring of interventions to the specific characteristics of each country. The project was structured according to the following three components:

An important element of the project was stakeholder consultation. Stakeholder meetings were held in each of the respective countries at the project outset, as part of the initial country diagnostics and again later in the project, with workshops organised to gather feedback on the draft regulations or policy documents (where applicable). Through this participatory approach, the project has served as a means of bringing together various stakeholders and promoting dialogue with the industry in each country on how to develop an effective regulatory framework.

In addition, through the inclusion of Component 3, it is hoped that the lessons learnt from the participating countries will be used by other supervisory authorities in the region and beyond to assist them in developing enabling regulatory frameworks in their jurisdiction.



Country diagnostics | Component 1

The first component of the project, the country diagnostics, was completed at the end of 2014.

Key Findings from Peru: A growing microinsurance market on the verge of diversifying

The Peruvian government placed great importance on financial inclusion and risk management, and had been strongly committed to promoting access to insurance through a supportive regulatory framework. Nevertheless, whilst reforms had targeted obstacles to access, simplicity and speed, certain key demand, supply and regulatory barriers persisted and hindered the full development of the microinsurance market.

Key Findings from Colombia: A self-regulated market that is expanding and slowly diversifying

Financial inclusion sits high on the government's agenda. The state acknowledges the importance of insurance as a tool for financial inclusion and had undertaken actions to encourage access by opening new transactional channels such as bank correspondence and mobile banking. Nevertheless, these transactional platforms have yet to be extended to microinsurance, and the microinsurance market continues to have low penetration and the products of little client value.

Key Findings from Jamaica: A nascent microinsurance market with no regulation

The Jamaican government is interested in developing a market for the low-income segment and the adoption of a national financial inclusion strategy is on the agenda. However, there is a general lack of knowledge about the target segment itself. Limited interest is shown in microinsurance by both the industry and consumers.

Summary: Cross-Country Learnings on Major Barriers from Country Diagnostics¹

Policy	<ul style="list-style-type: none"> Inclusive insurance was not part of national financial inclusion agenda/strategy Limited exploration of potential role of Public Private Partnerships to develop the market
Regulation	<ul style="list-style-type: none"> Lack of capacity to develop a regulatory framework focused on inclusive insurance
Supervision	<ul style="list-style-type: none"> Huge demand for capacity-building and limited resources Need for creating awareness about the role of supervisory authorities among the population
Demand	<ul style="list-style-type: none"> Need for financial education programs to: (1) promote insurance value to overcome distrust; (2) inform about available consumer protection mechanisms
Supply	<ul style="list-style-type: none"> Lack of statistics on product pricing Lack of knowledge and information about low-income segments Limited product innovation Available products offer low client value

¹ For more details on the country specific findings see our article in the MIN annual report, available on the A2ii Website

Definition and implementation of regulatory roadmaps | Component 2

Regulatory Roadmap definition

The findings from the country diagnostics (Component 1) were used as inputs for the creation of a regulatory roadmap (RMM) by each country's supervisory authority (Component 2). The RMMs were tailored to enable supervisors to design their own long-term plans informed by the country diagnostics, whilst also considering their own internal capacities, resources and mandates prior to implementation.

Peru

The Superintendencia de Banca, Seguros y AFP (SBS) decided that the most pressing priority was to develop new regulatory modifications to tackle the regulatory arbitrage which was occurring with insurance aimed at low-income consumers being written under the mass insurance regulation rather than the microinsurance regulation. In tandem, capacity-building activities as well as consumer financial education material were incorporated into the SBSs RRM.

Colombia

In order to address barriers in distribution, the Superintendencia Financiera de Colombia (SFC) identified the need to encourage additional distribution channels, appropriate for low-income segments. In this regard, a decree on non-banking correspondents was issued by the Ministry of Finance in 2015 broadening the type of institutions which insurers could use for distribution. The SFC therefore decided to focus its resources on developing supporting regulations to implement the decree. Additionally, considering the lack of reliable information to analyse client value, the SFC focused on internal capacity building to train staff on how to monitor whether inclusive products offer client value.

Jamaica

Given the absence of an inclusive insurance market – both in supply and demand, the Financial Services Commission (FSC) prioritised the promotion and regulation of microinsurance within the existing insurance regulatory framework and FSC mandate. Complementing these efforts, capacity-building activities for the FSC staff on basic microinsurance concepts and product design were included in the roadmap.

Regulatory roadmap implementation

Once the RMMs were finalised, the focus switched to implementation.

Following the findings of the country diagnostics, both Peru and Colombia have included specific actions to promote access to insurance in their national strategies for financial inclusion. Jamaica is also in the process of including this in its national strategy.



Summary: Implementation activities by country

Implementation measures / Country	Regulation	Capacity building	Financial education	Further measures
Peru	Revised microinsurance regulation published in May 2016. Revised regulation updated previous 2009 regulation, incorporating many of the recommendations from the country diagnostic, e.g. combined qualitative-quantitative definition, electronic policies, extended period for claims settlement, faster product registration process.	SBS staff were trained on microinsurance-related topics (e.g. on new registration processes). The A2ii-Toronto Centre training on inclusive insurance for Latin American supervisors was held in Lima, Peru in June 2015.	Development of material for different age groups including audio-visual as well as graphic content as part of the SBS Financial Education programme.	Action plan for inclusive insurance included in the National Strategy for Financial Inclusion. This included measures to facilitate the use of innovative channels and to develop financial inclusion indicators.

Colombia	<p>AML/CFT rules were simplified for low premium products in order to allow for digital/electronic signatures.</p> <p>Suitability requirements for insurance intermediaries were established.</p> <p>A regulatory proposal to allow distribution of insurance products through non-banking correspondents is currently under development to expand access to inclusive insurance.</p>	<p>Trainings on how to monitor inclusive insurance value for clients was provided to SFC staff and the industry.</p>		<p>Alternatives for monitoring and controlling microinsurance products are currently being analysed by SFC.</p>
Jamaica	<p>A policy paper on the development of a microinsurance market in the country was developed.</p> <p>A proposal for a microinsurance regulation was developed to fit within the existing insurance framework. The regulation would address, amongst other areas:</p> <ul style="list-style-type: none"> • Definition of microinsurance • Microinsurance product approval process • Requirements for microinsurance intermediaries • Consumer protection 	<p>FSC staff training on basic microinsurance concepts and how to monitor client value, as well as training for the industry on microinsurance product design.</p> <p>Jamaica will also host an A2ii-Toronto Centre training on inclusive insurance for Latin American and Caribbean supervisors in Kingston, Jamaica in January 2017.</p>	<p>Increased financial education was supported through regular media campaigns.</p>	<p>Permanent platform for dialogue with the industry established; namely the Inclusive Insurance Committee.</p>

Regional Learning | Component 3

The project has been successful in its objective to raise awareness of inclusive insurance and interest among insurance supervisors in Latin American and the Caribbean as it was able to create spill-over effects and replication in the region beyond the three insurance supervisors directly involved. Through the project, more than 745 people have been trained in inclusive insurance including those from non-project participating countries. Moreover, Costa Rica, Guatemala, Paraguay, Nicaragua, Honduras, Chile and Bolivia are currently involved in developing an environment that promotes inclusive insurance and have expressed interest in receiving a similar country support.

Overall, the project has allowed for the identification of opportunities to sustainably promote the expansion of inclusive insurance in Latin America and the Caribbean. It has served as a platform for public-private and peer-supervisory stakeholder dialogue and highlighted the crucial role that supervisory authorities can undertake in this process. The learnings from the project are invaluable for future interventions and replication in the region advancing access to insurance.

If you would like more information on the project, please send an email to secretariat@a2ii.org

Related Readings:

Country Diagnostics Peru / Country Diagnostics Jamaica / Country Diagnostics Colombia

The Initiative is a partnership between:



Hosted by:

