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INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Access to Insurance Initiative

A global programme for sound regulatory and supervisory frameworks

IAIS-A2ii Consultation Call: 19 May 2016

“Regulatory Definition of Microinsurance II”

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Agenda

1. Objective and key elements of a microinsurance definition
2. Examples
3. Complementary actions
4. Challenges & recommendations
5. Case studies: Perú & Ghana





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1. Why is a regulatory definition important?

- Provides **clarity** on what “**microinsurance business**” is
→ **Delineates** microinsurance business from other lines
- Allows for a **differential treatment**
→ with **incentives** e.g. new distribution channels or a lower burden for the industry for this low-cost business
→ with improved **consumer protection** that works for this client segment
- Sets **proportionate requirements** (incentives or tougher rules) for this business





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2. Key elements - what should be defined?

- 1) General description of what microinsurance is
- 2) Intended client groups
- 3) Business of microinsurance
- 4) Microinsurance underwriter
- 5) Microinsurance agents or distribution channels
- 6) Microinsurance product
- 7) Microinsurance contract





3. Examples of quantitative limits (~USD)

	India	Philippines	Peru	Pakistan	Brazil	Ghana
Insured Amount						
Regulatory updates	80-800 (2005) 3,500 (2015) life – for other products varies	4,000 (2006) 4,200 (2010) 11,000 (2013)	3,300 (2007) none (2009) none (2016)	Depending on the type of product (5-40 times the minimum monthly wage)	Depends on the type of product (14-17,400 USD)	none
Insurance Premium						
Regulatory updates	90 (2015) annual for life	10/5/7.5 % of the daily minimum wage	3.3 (2007) none (2009) To be defined (2016)	none	none	none



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4. Examples of defining target market

India	Philippines	Peru	Pakistan	Brazil	Ghana
Low income population	Low income population	Low income people and micro-entrepreneurs (no quantitative benchmark)	Person with monthly income of less than the minimum taxable income or as set up by the commission	Low income people and individual micro-entrepreneurs. Low income defined as person with a monthly income of less than 2 minimum wages	Low income people, specific types or descriptions of low income persons, or low income persons in a particular geographical area





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5. Examples of qualitative elements related to the product (SUAVE)

- **Simple** - contract, language, cover, processes
- **Understandable**, tailor-made education tools, training for channels
- **Accessible** - distributed by channels which consumers have easy access to, information available in a timely manner, consumers able to receive the benefits
- **Valuable** - product responds to the needs of the clients, the price is fair, rapid claims
- **Efficient** - claims process, premium payment, complaints handling

Reference: Microinsurance Centre (2011) "SUAVE Checklist for Microinsurance Products: Enhancing the potential for success"





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6. Complementary actions of the supervisory authority

- **Adjust supervisory tools and techniques**
 - different product approval process and registry
 - separate reporting and data analysis (monitoring)
 - innovative approaches to oversight compliance of market conduct rules of microinsurance distribution channels (delegated supervision, dialogue with other supervisors, etc.)
- **Issue additional guidance**
 - To implement the proportionate requirement





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7. Challenges / flaws of faulty definitions

- **Quantitative amount too low**
 - industry not motivated, clients not sufficiently covered, limited innovation
- **Product characteristics too stringent:**
 - industry not motivated, cannot comply with rules
 - insufficient flexibility for innovation
- **Insufficient consideration of other regulations** and options to distribute or register products
 - register a product as mass or traditional insurance





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8. Negative consequences

- Industry has no incentive to innovate and to offer products to a segment of the population that needs them
- The microinsurance regulation is not used
- Regulatory arbitrage with other regulatory frameworks
- Weak consumer protection – market conduct failures in a market characterised by a vulnerable consumer





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9. Inclusive insurance, mass insurance, microinsurance?

- Some countries have moved forward the agenda on inclusive insurance through what they call “**mass insurance**” (i.e. some countries in LATAM).
- Generally, **mass insurance regulation** characterises them as products that are universal, simple and standardised and because of that, they can be distributed by alternative distribution channels.
- **If mass insurance products** meet the following criteria it might not be necessary to create a new category of products such as microinsurance:
 - i. are being purchased by prioritised segments of the population;
 - ii. are delivered in a responsible way; and
 - iii. products offered under this umbrella provide value





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10. What is required? (1)

Strike the balance of incentives and obligations considering the entire regulatory framework (e.g. reporting burden; consumer protection requirements)

Flexibility of the microinsurance regulation:

- Decide whether a quantitative limit is required and if needed this should be regularly reviewed
- Flexible product characteristics – not all the criteria need to be in the regulation





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10. What is required? (2)

Supervisor needs to set up adequate supervisory tools and techniques:

- Reporting requirements, monitoring and data analysis to take action
- Verification of products
- Supervision of the channel with the support of other supervisory authority or through delegated supervision

Flexible attitude of the supervisor:

- To respond to challenges emerging in the process
- To update regulation and supervision tools
- To complement the regulation with guidance
- Discussion with the industry





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- Case Study: Perú -

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The case of Peru

1. 2007 Regulation:

- » To promote the development of an insurance market targeting low income populations:
 1. Simple insurance with few exclusions.
 2. Low cost insurance: limits to ensured amounts and premiums.
 3. Allow use of new distribution channels.

2. 2009 Regulation:

- » Improved regulations:
 1. More accurate microinsurance definition.
 2. More specific characteristics: insurance create added value for customers.
 3. Required broker identification.
 4. Remove limits to insured amounts and premiums.
 5. Correct regulations regarding open terms, payment of premiums and contract cancellation.





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The case of Peru

New microinsurance regulation

1. Universal regulation
 - » For all the products meeting the characteristics identified for microinsurance.
1. Definition and characteristics of microinsurance
 - » Products that meet the characteristics described for target audience, brokers and premium limits.
 - » Information reporting for all products registered as microinsurance or which do meet such characteristics.
2. Enforcement of new provisions
 1. Payment of premiums and consequences in case of failure to comply.
 2. Payment voucher used as evidence of contract.
 3. New communication mechanisms: e-mail and telephone.
 4. Faster new product registration.
 5. Brokers regulations, training, communications and systems.
 6. Use of electronic policies, sales through agents, remote sales and electronic money.





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The case of Peru

Planned projects:

National financial inclusion strategy

Insurance: To promote access to and use of insurance products and services by all segments of the population in a reliable and efficient manner that meets their needs.

Microinsurance action plan:

- » Provide new regulatory framework.
- » Encourage use of innovative channels.
- » Facilitate new product development.
- » Promote standardised policy conditions.
- » Incorporate insurance in social programs.
- » Develop financial inclusion indicators.





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Michael Kofi Andoh

NIC Ghana





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The case of Ghana

- 1. Objectives:** Why did you develop a regulatory definition?
 - To provide legal certainty, effectively monitor progress and minimise regulatory arbitrage.
- 2. Process:** What did you do to develop your regulatory definition, and support implementation?
 - Assessed many other definitions
 - Involved the industry and other stakeholders
 - Issued Market Conduct Rules + Explanatory Note + Guidance Note
- 3. Key elements:** What are the main elements of the definition you use?
 - meeting the needs of a specified target market
 - affordability
 - accessibility





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The case of Ghana

4. Which challenges did you (or industry) face?

- Assessment against the criteria
- Written Record of Assessment
- Separate reporting on microinsurance (only twice per year, scheduled a workshop on reporting)

5. What are the results?

- 13 out of the 48 companies are offering MI products
- 27 active products registered and doing well so far
- Almost 30% of the population covered as of 12/2014

6. What new plans do you have?

- Faster product approval, lower fees for product registration

