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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: 20 July 2017

Proportionate approaches to disclosure of information

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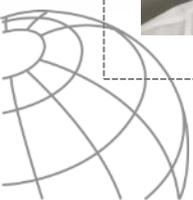


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1. Relevance and effectiveness of disclosure in traditional insurance
2. IAIS guidance for traditional insurance
3. Need for a proportional approach to disclosure in inclusive insurance: consumers perspective
4. Need for a proportional approach to disclosure in inclusive insurance: insurers perspective
5. IAIS Guidance for inclusive insurance
6. Proportionality in practice study
 - 6.1 Overview of supervisory approaches
 - 6.2 Key insights
7. Conclusions





1. Relevance and effectiveness of disclosure in traditional insurance

In general the disclosure of information by the insurer or the intermediary is key to ensure that the insured will provide an informed decision

- by understanding the characteristics of the product (s)he is buying and
- by understanding whether and why it meets his/her requirements
- and therefore, the conditions of the contract will be fully enforceable.

→ Traditional rules **can be sufficient** for inclusive insurance!





2. IAIS Guidance for traditional insurance

- Ensure customers **are treated fairly**, both before a contract is entered into and during the life of the contract.
- The customer should be given **appropriate, timely and comprehensible information** about a policy in order to make an informed decision.
- The information should be **clear, fair and not misleading**.
- **Costs of compliance** with relevant regulation in respect of disclosure should not lead to higher premiums and become a barrier to broader access to insurance.
- **Requirements may vary** according to culture, legal regime, degree of development of the insurance sector and knowledge and experience of a typical customer.

*“In accordance with ICP 19 the supervisor requires insurers to promote products and services in a manner that is **clear, fair and not misleading** and to set requirements for insurers with regard to the **timing, delivery, and content** of information provided to customers at point of sale” (IAIS, Application paper on approaches to conduct of business supervision, 2014)*





3. Need for a proportional approach in inclusive insurance - **consumers perspective**

Need to apply these rules in a proportional way for inclusive insurance – to protect the consumer - because:

- The insured is generally more vulnerable:

“Low-income customers are generally more vulnerable than higher-income customers because of the deprivations they face as consequence of poverty (.....) lack other basic necessities such as education, employment, housing, and access to justice” (IAIS, Issues Paper on Conduct Business in Inclusive Insurance, 2016)

- Vulnerability is amplified in the case of those insured in group policies
- Asymmetry of information of inclusive insurance clients is wider, and so, the threat of abuse and mis-selling
- Traditional tools of disclosure may not be effective





4. Need for a proportional approach in inclusive insurance - **insurers perspective**

Need to apply these rules in a proportional way for inclusive insurance – to enable business - because:

- **Compliance costs for the insurers** could be too high - discouraging insurers to offer products to this segment of the population
- A2ii proportionality survey identified top 5 market factors - encouraging or discouraging insurers:
 - 1. Reducing disclosure content requirements**
 - 2. Allowing market sensitive language**
 - 3. Allowance of fully electronic policies**
 4. Availability of specific regulations for microinsurance
 5. Allowed use of any means of payment

→ The top 3 are related to disclosure!





5. IAIS Guidance for Inclusive Insurance - overview

IAIS Issues Paper on Conduct of Business in Inclusive Insurance (Nov 2015)

- Disclosure as key element in the inclusive insurance product life cycle.

IAIS Application Paper on Supervision of Conduct of Intermediaries (Nov 2016)

- The diversity of intermediaries, new intermediaries and new supervisory approaches.

IAIS Application Paper on Product Oversight in Inclusive Insurance (Draft June 2017)

- Disclosure for inclusive insurance products should follow the same principles as conventional insurance products.
- Certain requirements need to be greater.





5. IAIS Guidance for Inclusive Insurance – Issues Paper on Conduct Business in Inclusive Insurance

Mode:

- Conventional means of disclosure may not be appropriate.
- Through various channels including advertisements and promotions, presale, point of sale information and post-sale information
- Could even be by word of mouth; or there might be a local gathering place where conversations take place.
- Information disclosure is sometimes supported by innovative means of raising awareness and insurance literacy.
- It can use visual learning approaches. However, this only works if the insurance policies are basic and do not include voluminous exclusions.
- Orally, but followed by written information.





5. IAIS Guidance for Inclusive Insurance – Issues Paper on Conduct of Business in Inclusive Insurance

Time:

- Disclosure should be done in a manner and at a time, which synchronises with the work/life needs of the insured.

Content:

- Focus on the **quality of product disclosure** rather than on the quantity of disclosure.
- Use of the potential customer's native / official language or the vernacular language in the country.
- The use of **standardised information** that is screened on its easy readability and use of **simple words** might help.

Process:

- Training of alternative distribution channels in order to effectively disclose the details of the policy.





5. IAIS Guidance for Inclusive Insurance - Issues Paper on Conduct of Business in Inclusive Insurance.

Effectiveness

- The level of effectiveness in **group insurance** and **mandatory or embedded products**
- Offering customers information even **when products are mandatory or embedded** into other packages of financial services (such as savings, remittances, or credit) is important to ensure that customers can benefit from the products at all.
- Compulsory products may not provide customers with **sufficient information** to e.g.
 - opt out of the scheme, or
 - understand how questions can be addressed or
 - claims can be made.





6. Proportionality in practice study

The proportional approach to disclosure intends

- to **protect consumers**
- and **encourage the industry** by lowering entry barriers and reducing cost of doing business for inclusive insurance
- Study looks at **experiences** from Brazil, Pakistan, Peru and El Salvador and covers **five practical aspects** of disclosure related to
 - 1) Mode of disclosure
 - 2) Documentation
 - 3) Language
 - 4) Timing
 - 5) Content





6.1 Overview of supervisory approaches

| Disclosure aspect | Criteria | Details regulated and country |
|-------------------------|--|---|
| 1) Mode | <ul style="list-style-type: none">• Verbally• In writing• Key facts• Simple | <ul style="list-style-type: none">• Key facts: SA, Peru, Philippines• Brazil: additional obligations for disclosure via remote means |
| 2) Documentation | <ul style="list-style-type: none">• Electronic• Tickets• Certificates (group) | <ul style="list-style-type: none">• Allowing electronic forms of policy contracts (Brazil)• Allowing tickets and certificates (China) |
| 3) Language | <ul style="list-style-type: none">• Vernacular• Simple | <ul style="list-style-type: none">• Simple terminology easily understood (Ghana, Kenya, Phil)• Vernacular language (Pakistan, Philippines, India)• Avoiding technical and legal language |



6.1 Overview of supervisory approaches

| Disclosure aspect | Criteria | Detail regulated |
|-------------------|--|--|
| 4) Timing | <ul style="list-style-type: none">• Pre-sale: before contract starts• Post-sale: During the life of the contract (on-going servicing) | <ul style="list-style-type: none">• Key facts must be disclosed before or at the time of inception of the contract (Pakistan) |
| 5) Content | <ul style="list-style-type: none">• Standardised format: “Key information Document” | <ul style="list-style-type: none">• Requiring a list of minimum information (Brazil)• Detailed requirements regulated, e.g. on cover, call-centre number, detailed information about intermediary and since 2016, on commission (Peru)• No information on commissions (Brasil) |



6.2 Key insights from study

- Disclosure requirements **need to be suitable** according to the type of channel or medium of communication.
- Disclosure and documentation requirements are often tedious in nature and it is important to ensure that **requirements are clear**.
- Requirements also often lead to significant **compliance cost**, which could outweigh intended benefits.
- Differentiated disclosure and documentation requirements for inclusive insurance **may not be necessary**, if the traditional ones are clear and applicable for this type of consumer and business.
- An aspect of disclosure that is largely unaddressed from the country cases of the study is **requirements on verbal or in-person disclosure**.





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7. Conclusions (1)

- Effective disclosure in inclusive insurance is of utmost importance for both consumer and the business – finding the **balance between consumer protection and disclosure** requirements is the main supervisory challenge.
- The traditional assumptions that more text and info in writing protect consumers are **not appropriate for inclusive insurance**.
- Disclosure and documentation requirements for inclusive insurance should focus on **coverage definition, limited exclusions and documentation requirements** in case of claims.
- Special attention should be given to **distribution channels**, which play a key role for inclusive insurance.
- Use of **electronic and digital means are crucial** for reducing costs and developing inclusive insurance lines.





7. Conclusions (2)

- Inclusive insurance could provide **valuable lessons for traditional insurance** in areas such as reducing costs in selling insurance (e.g. use of electronic means and digital insurance and use of tickets, as in traditional insurance in Brasil).
- Use of **individual contracting** (through insurance tickets) instead of group policies will help to minimize the vulnerability of inclusive insurance consumers.
- Simplicity of information requires **innovative approaches from insurers and supervisors**. It is key to think out of the box.
- Validation of effectiveness of disclosure should **involve the consumer** to know if they are effectively understanding.
- Sometimes the insurers are the more conservative ones to try simplicity even though the regulation allows it. The **compliance departments** may also prefer to stick to the old rules so it is key to make sure that they are aware of changes and the importance of implementing them.





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Thank you!

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**Save the date for the next Consultation
Call on 21 September!**





The Initiative

The Initiative is a partnership between:





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Access to Insurance Initiative

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IAIS-A2ii Consultation Call: 20 July 2017

Case study: Zimbabwe

Country expert

Fidelis Kagura

Insurance and Pensions Commission

Zimbabwe



1) Reasons

- Ensure that customers are treated fairly
- Ensure consumers get clear and simple information
- Fulfilment of our mandate to protect the rights, benefits and other interests of policyholders
- Ensure that customers know what they are buying
- The regulator is aware of cultural, social and religions concerns of various societies in Zimbabwe and this framework is catering for that



2) Objectives

- Enhance protection of the insuring public
- Ensure standardisation of disclosures for consumers of inclusive products.
- To ensure standard minimum information is given to customers before they make a decision.



Overview of disclosure requirements in the Microinsurance Regulations

- All Microinsurers products will be approved by IPEC
- All insurers must indicate any exclusion in the policy document summary.
- The insurer must notify the policyholder 30 days before lapsing his/her policy.
- The policy documentation including marketing material must be written in simple English and vernacular languages.
- A simple policy summary document should be made available to the customers before entering into the insurance contract (Max 1 page, font at least 10)



disclosure requirements (part 1/2)

- The insurance company or intermediary must issue the policyholder with a receipt (printed or electronic) as soon as a premium payment has been made (5 working days)
- Policy renewal, the insurance company should notify the policyholder that the last premium of the current policy term has been paid and that the next contract term will automatically start with the next premium payment (1 month)
- Claim payments should be made within 5 working days



disclosure requirements (part 2/2)

- Claims documentation for any particular product should be indicated in the respective policy document for that product (minimum requirements).
- IPEC accepts replacement of policy summary (premium changes) with a SMS (or similar ICT method) or mobisites
- Reinsurance treaty to be submitted to IPEC
- Inclusive products will be reported separately



Expected outcomes

- Expect to include all previously insurance excluded persons
- This will improve the penetration ratio, growth of the industry
- This will avail resources for the government for infrastructural development
- provide social security to the general population, especially low income individuals.
- Microinsurance reduces the risk of low income families falling back into poverty.
- SMEs should now be able to access loans
- Support the long-term development of the insurance sector



Next steps in implementing the regulations

- IPEC has set up a steering committee with the following terms of references:

Identify and make recommendations to IPEC

Make recommendations on possible improvement that can be made on regulatory & operation of the framework

Recommend effective capacity building & awareness programmes on MI products

- Already registering aggregators and microinsurance agents.
- Consumer education programme are underway led by the regulator
- Where products cannot be sustainable, there will be consortiums



Questions??



thank you!





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Case study: Brazil

Example provided by

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Superintendencia de Seguros Privados (SUSEP)





1) The challenges faced:

Requirements for traditional insurance are not tailored to the inclusive insurance market (e.g. in terms of disclosure) for insurance products and distribution channels.

2) The approach taken:

Based on the stakeholders inputs (regulators, insurers, brokers..) SUSEP issued a set of regulations for inclusive insurance.

2.1 SUSEP Circular 440/2012, establishes:

- The use of simple terminology easily understood by the insured.
- Standardised coverage wording with limited exclusions, once risks are low in MI (facilitate a common understanding of product features).
- Limited and standardized documents for claims settlement and requirements concerning the payment term (claims must be paid in 10 days - three times lower than traditional insurance).
- The number and the type of disclosure requirements for the contracting through tickets and certificates(more consolidated in MI)
- The use of digital technology in MI operations (fully electronic police)





2.2 CNSP Resolution #294/ 2013, in line with increasing online insurance sales, the use of digital technology was further institutionalized by this Resolution,

- requires the correct identification of the policyholder and its beneficiary, ensuring the authenticity and integrity of their data and personal information;#
- list the messages that should be sent to the policyholder and beneficiary (mass and microinsurance).

2.3 CNSP Resolution #297/ 2013, and SUSEP Circular 480/ 2013

- focus on regulating the insurance representatives (individual polices) and retailer's role in insurance sales (disclosure requirements on the insurer's name and details on product features
- also require a visible physical location for insurance sales force in the retail store and prescribes a code of conduct for salespersons (mass and microinsurance).





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Case study Brazil (3)

3) The lessons learned (insights gained):

- Many microinsurance initiatives end up being applied in other insurance lines (Digital technology and Insurance Representative regulation)
- Although inclusive insurance demands a different approach, It is important to find a balance between disclosure and documentation requirements and consumer protection risks concerns in order to avoid a regulation burden to the insurer
- Alternative distribution channels often found in inclusive insurance business models need to be properly regulated since such distribution features can rise customer protection risks (insurance sales in retail stores)

