

Report of the 3rd A2ii – IAIS Consultation Call

Consumer Protection and Inclusive Insurance Markets

22 May 2014



Consumers in inclusive insurance markets are often not familiar with the concept of insurance and therefore vulnerable to abuse. Consumer protection risks have the potential to arise at different stages in the insurance process such as advertising, collection, enrolment, servicing and/or claims. Many of these risks and possible regulatory responses were identified in the A2ii synthesis studies based on the A2ii country diagnostics and other studies available for comment at www.a2ii.org.

Consumer protection is achieved through a variety of means such as prudential and solvency regulation, conduct of business supervision, consumer education, and consumer protection frameworks and insurance guarantee schemes. The [IAIS Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets](#) provides guidance to supervisors on consumer protection issues in inclusive insurance markets. Namely, that insurance should be formal, innovations be facilitated, a proportionate approach is recommended and roles and responsibilities of supervisors and other authorities that may be involved need to be clear. Consumer protection in inclusive insurance markets is indeed an important issue for the IAIS. The IAIS set up a drafting group which is currently working on an issues paper on market conduct, distribution and consumer protection in inclusive insurance markets. The objective of this paper is to assist in developing application guidance on proportionate regulation and supervision to address these issues.

The third consultation call in the consultation call series focused on consumer protection in inclusive insurance. The call was held on Thursday May 22 and was attended by 47 participants across Asia, Africa, Latin America and Europe. The experts on the call were Martina Wiedmaier-Pfister, Financial Inclusion Expert and Craig Thorburn, Actuary and Lead Insurance Specialist, World Bank. The opening remarks were made by Member of the IAIS Secretariat Conor Donaldson: “This is the third call I’ve participated in and I can say that in terms of the quality of the outputs and the conversations taking place between supervisors, it’s shown to be (in my mind) immensely beneficial and I think that’s consistent with the feedback that has been returned to the A2ii and IAIS (from supervisors)”.

Trends in inclusive insurance markets impacting upon consumer protection

Martina Wiedmaier-Pfister introduced the trends that are impacting upon the supervision of inclusive insurance markets, as well as the challenges supervisors face in this regard. The global drive for financial inclusion, as well as the role insurance plays in achieving other policy objectives (such as in agriculture, employment, green finance or climate change) has placed increasing political pressure on supervisors to remove regulatory barriers and improve access to insurance. More importantly, insurers increasingly recognize the business opportunity in inclusive insurance markets and innovative partnerships with non-financial client aggregators are emerging. However, many of the products and services are still low quality. Very few countries have been able to achieve large scale and provide value to consumers. Low claims and renewal rates suggest that client value remains a concern. In addition, more complex products, such as in health, agriculture or catastrophe, are those that are demanded by the low-income market. Unfortunately, many pilots rarely survive the infant stage, rely on subsidies, and few break even in the long term, which in turn threatens the reputation of insurance.

In many markets, innovative distribution partnerships have multiplied and there are new types of intermediaries from outside of insurance. These include non-banking agents, postal agencies, retailers, trade unions, utility companies and mobile network operators. These new partnerships with non-insurance (and in many cases non-financial) entities gives rise to several consumer protection risks identified in [Note 1 of the A2ii cross-country synthesis](#) on evolving microinsurance business models and their regulatory implications. The main risk identified with these new distribution partnerships is aggregator risk, but other risks include sales risk, policy awareness risk or payment risk.

The increasing variety of consumer protection risks (stemming from non-traditional delivery channels, non-insurance partnerships and innovative products) confronts supervisors in different ways. These include products being filed for approval when the technical department is lacking data to properly assess their risk,

unassessed partnership agreements, performance not being monitored outside of the regular monitoring cycle, and new schemes that end up failing, thus leaving many people without cover.

Effective consumer protection is impacted upon by a host of other challenges such as supervisory capacity and supervisory engagement in financial education. The complexity of innovative market development requires informed and proactive supervisors that act in a concerted way. Supervisory capacity in many markets struggles to keep up with the pace of market innovation. However, in many cases supervisors lack the financial means to do so. Meanwhile, growing schemes with low levels of claims and renewal rates suggest that supervisors may need to consider approaches that will ensure client value.

In the case of financial education campaigns, supervisors often lack the means or mandate to implement and seek a balance between limiting their engagement and making a meaningful contribution. In some countries, the supervisor may be able to get more broadly involved, for example in joint campaigns together with other authorities and the insurance association. But more often the supervisor assumes a catalytic role, where they limit their engagement to developing a national strategy, or training or advocacy material available for dissemination while motivating other stakeholders to engage in insurance education.

Consumer protection considerations and responses for supervisors

Martina Wiedmaier-Pfister provided four possible considerations for dealing with consumer protection risks in inclusive insurance markets. Firstly, consider treating microinsurance business separately, in terms of a dedicated regulatory framework, a separate product registry, and also, separate performance monitoring of this business. Separate treatment allows for tailored consumer protection requirements as well as collection and analysis of performance data. Secondly, the supervisor should review how to deal with microinsurance internally, given that it cuts across various departments within the insurance supervisor. The supervisor may consider setting up a working group, or even a separate microinsurance de-

partment. Thirdly, supervisors need to work with other authorities that oversee the non-insurance distribution channels. Here, insurance supervisors can partner with supervisors of microfinance institutions, postal offices, utility companies or mobile network operators. Supervisory coordination and cooperation in such cases is imperative. Finally, supervisors should actively engage in dialogue with the industry to improve regulatory feasibility, avoid regulatory backlash and leverage industry action.

Craig Thorburn provided guidance to supervisors on issues arising in consumer protection with regards to responding to risks, proportionality and balancing consumer protection while facilitating innovations and pilots. When looking to address regulatory barriers in access to insurance, the industry and others often start by looking for exemptions to existing regulatory requirements. However, exemptions often mean these issues go unaddressed. Supervisors should consider outcomes before prescribing responses to consumer protection issues. One approach is to try to define what is meant to be achieved in clear terms. For example in the [IAIS Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets](#) (4.41) the minimum requirements for disclosure are set out as: the customer should know that they have insurance; who the insurer is; their obligations under the product; how to access the services under the product; and when the insurance ceases.

In addition, the IAIS Application Paper recommends a proportionate approach to regulation. This means that regulation and supervisory practices are sufficient, but not excessive, and tailored to the nature, scale and complexity of the risk. In some cases, the risk may be reduced and in others, particularly consumer protection, the risk to achieving supervisory objectives may suggest increased intensity of supervision. An intense approach will require a more proactive supervisor that, for example, initiates customer survey projects rather than relying on reacting to complaint statistics.

With regards to consumer protection and pilot schemes, schemes should be licensed, at least at the level of registration, and be subject to conditions that protect the interests of policyholders during and, if relevant, beyond the pilot. However, many pilot schemes happen without knowledge of the insurance supervisors and outside of the insurance space. The IAIS Application Paper recom-

mends supervisors facilitate these innovations, but also be involved when the pilot occurs. If it is not possible to provide a light licensing regime, jurisdictions can address this separately by having a bi-lateral arrangement with the sponsor of the pilot. This agreement might include requiring the pilots' sponsor to provide a stop-gap measure for consumer redress if it is unclear whether the pilot is officially insurance. These issues can be addressed in advance and should be considered by the supervisor early.

Country experiences with responding to consumer protection risks: Brazil and Pakistan

Faraz Uddin Amjad from the Securities and Exchange Commission of Pakistan (SECP), responsible for the supervision of insurance in Pakistan, shared their experience with regards to responding to consumer protection risks in inclusive insurance markets. Over the last year and a half, Pakistan has been working to address consumer protection and financial literacy. The World Bank helped develop a report that identified the most important consumer protection issues. The report identified the most significant risk as the bundling of products, where an insurer partners with a bank or leasing company as a distribution channel and offers the consumer insurance without the consumer being advised or able to opt out. This occurred in the context of the microinsurance market, where clients are less literate and often not able to understand anything outside of the local language. The SECP has responded by developing a code of consumer protection for nonlife and life microinsurance that is currently in force, while a separate generalized code of conduct for insurers is also being finalized. The code of consumer protection includes the following four key principles: transparency, fair practices, privacy and fair disclosure, and client recourse. With regards to transparency, insurers need to include key fact statements along with the policy that includes premium amounts, exclusions, premium frequency and renewable conditions. Fair practices require insurance companies to be legal, ethical, non-discriminatory and free of deception. Privacy and fair disclosure, which people at the bottom of the pyramid are not as aware of, protects client data from unauthorized use. Finally, client recourse requires the insurer to ensure the policyholder has a recourse mechanism that it is easily accessible. This includes in-

ternal complaints handling mechanisms and a biennial client survey to understand the value of products.

In Brazil, the insurance supervisor, Superintendência de Seguros Privados (SUSEP), has focused on addressing consumer protection issues arising from retail-based distribution models¹. Regina Giordano Simões informed participants that over the last five years the insurance industry in Brazil has developed a number of mass distribution channels. Retail-distribution models offer insurers a trusted brand, established sales force, premium collection functionality and administration support. A variety of covers are offered through this channel: extended warranties, credit life, home insurance, personal accident and disability. However, since the beginning of 2009, the supervisors have detected a number of issues with retail distribution. This includes bundled sales, where the product offered is much more expensive when not bought with insurance, brokers who were acting as an insurance agent, retailer organizations who were representing policyholders, but, actually acting on behalf of the insurance companies, products which were offered in an inappropriate way with non-trained staff, and non-disclosure. SUSEP responded by introducing the following regulatory measures, among others: established guidelines to offer and promote insurance plans through retailer organizations, made it compulsory for retailer organizations to sign a contract as insurance agents, banned both bundled-sales with any type of insurance and discounted prices for goods and services purchased with insurance, required products to have a minimum term of one year, established a seven-day "cool off" period for insurance purchases, allowed SUSEP full and unrestricted access to the stores of insurance agent, as well as to all information, data and documents relating to the contract and services of the insurance services offered.

The experience shared by the insurance supervisors of Pakistan and Brazil reinforces the key concluding remarks for the call. Namely, that supervisors seeking to improve effectiveness in dealing with consumer protection in inclusive insurance markets need to define their priorities upfront in a growing market, adjust capacity building within the supervisory authority, but also across the other authorities in charge, and be proactive in terms of monitoring and evaluating client value.

¹ Regulated retail insurance channels in Brazil include those that use electronic channels as well.

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