

Recommendations on regulatory change

Hennie Bester, 17 December 2013 Peru stakeholder workshop







Questions to be answered:

- 1. What is a regulatory approach?
- 2. What is the most appropriate regulatory approach(es) for Peru to grow access to insurance?
- 3. How should the current regulation be adjusted to implement this approach(es)?





What is a regulatory approach?

Regulatory approach

A combination of regulatory and supervisory tools designed to achieve a specific level of state intervention within a defined product market or across a number of product markets.



Policy objectives

A regulatory approach is based on the policy objectives that the government wants to achieve.



Conditioning factors

Not every regulatory approach can work in every product or geographical market. Certain conditioning factors must be present for an approach to work.





Regulator's Tool Box

Fiscal tools relate to state revenue and expenditure:

- Expenditure measures, e.g. subsidies
- Revenue measures, e.g. tax concessions

Surveillance tools are used to monitor the industry's compliance with the rules:

- Complaints mechanisms
- Off-site monitoring
- On-site inspections

Regulator's Tool Box

Regulatory tools refer to the full spectrum of legally binding rules that sets the framework within which market players are allowed to operate:

- Rules for market entry
- Legal conditions for continued market participation
- Compulsory covers

Enforcement tools are the measures available to regulators to resolve problems with regulated institutions:

- Graduated compliance/ enforcement
- Pre-emptive problem resolution
- Prosecution and alternative dispute resolution





5 regulatory approaches

Public Provision



State identifies risk and manner in which to be covered and subsidises provision

Agricultural and rural insurance in China

Directive



State requires (with sanctions for non-compliance) insurers to serve a specific market segment

India rural and social sector quotas

Concessionary



Regulatory requirements reduced for lower risk products to reduce cost of provision

Philippines, Brazil, South Africa (proposed)

Nudge



Rely on market forces to move insurers downmarket with enabling environment

Colombia, Ghana, Thailand

Long-term market development



Focus on developing insurance industry with no specific focus yet on low income market

Uganda, Mongolia

Increasing State Intervention



Peru: current regulatory approach



Public policy objective:

- Social inclusion (1 million more people with financial access)
- Universal health coverage
- Catastrophic risk management

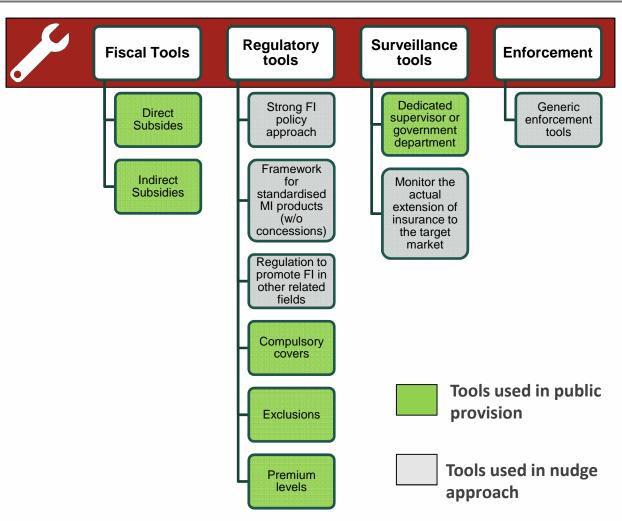
Current approach:



Public provision in Health, SOAT, Agriculture (subsidies)

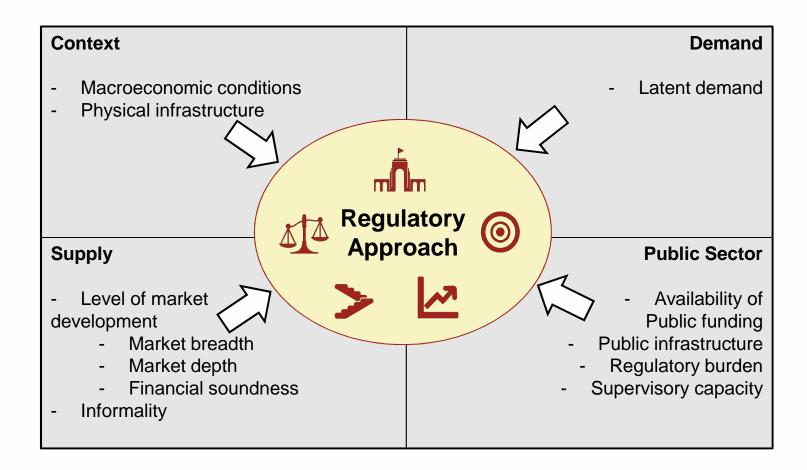


Nudge via Microinsurance resolution (2009) and adoption of the massification circular in 2010





Conditioning factors







Interplay between conditioning factors and regulatory approaches

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|---|---|--------------|--------------|--------------|--------------|----------|
| Context Factors | No adverse macroeconomic conditions | Helps | Important | Prerequisite | Prerequisite | |
| | Good physical infrastructure | Helps | Helps | Important | important | |
| Demand | Latent demand | | Important | Prerequisite | Prerequisite | |
| Supply | High penetration | | Helps | Important | Prerequisite | |
| | High breadth | | Helps | Prerequisite | Prerequisite | |
| | Financially sound | Helps | Prerequisite | Important | Prerequisite | |
| | Informality and consumer abuses | | | Helps | | |
| Public Sector and regulatory framework | Public funding | Prerequisite | | | | |
| | Public infrastructure | Prerequisite | | † | | |
| | Adequate level of supervisory capacity | Helps | Important | Prerequisite | Helps | |
| | High regulatory burden | | | Important | | |





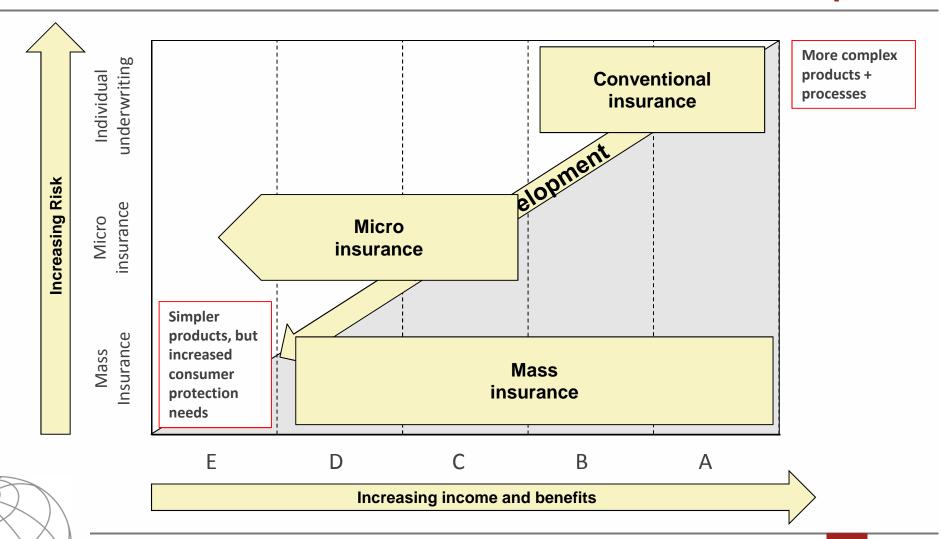
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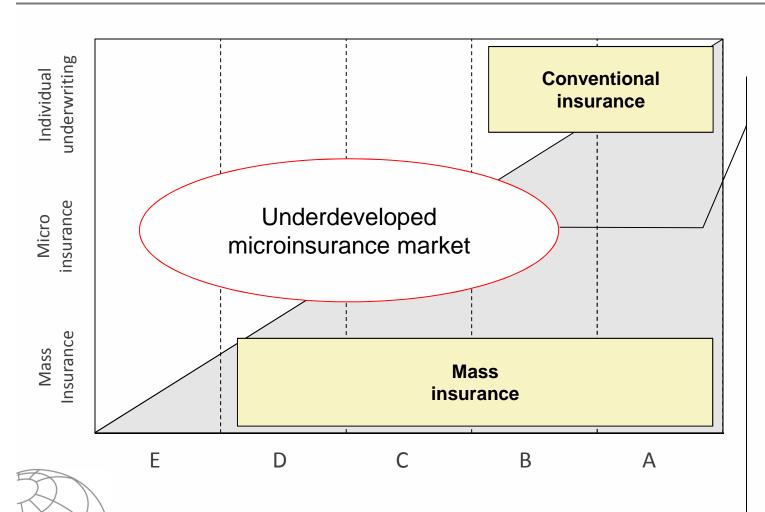


Insurance Market Development





Peru Insurance Market Development



Implications

- Regulatory

 arbitrage –
 avoiding the
 product standards
 and market
 conduct rules set
 for microinsurance
- Important distribution channels not explored
- Much of the need for risk mitigation in C, D and E not met
- Low client value and consumer protection concerns



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Long-term market development



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Increasing State Intervention



How to choose new regulatory approach?

Policy objectives

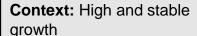


Social Inclusion – 1 million more people with financial access

Universal health coverage

Catastrophic risk protection

Conditioning factors



Demand: Little latent demand except for Health

Supply: Low insurance penetration concentrated in urban areas with limited product choices

Public sector: Public funding to health and agriculture



Regulatory approach

Public Provision



Directive



Concessionary



Nudge



Long term market development







Environmental factors that prevail in Peru

| | | Peru 💌 | | 0 | | > | <u>~</u> |
|---|---|---|--------------|--------------|---------------|---------------|----------|
| Context Factors | No adverse macroeconomic conditions | High and sustained growth | Helps | Important | Prervuisite | Prece duisite | |
| | Good physical infrastructure | Good in Lima, bad in rural areas (Amazon and Andean region) | Helps | Helps | Important | important | |
| Demand | Latent demand | Low latent demand with the exception of health | | Important | Prerentisite | Prere uisite | |
| Supply | High penetration | Low (1.5%) compared to regional average (3%) | | Helps | Important | Prerduisite | |
| | High breadth | Concentrated in urban areas | | Helps | Prerectisite | Prerouisite | |
| | Financially sound | | Helps | Prerogaisite | Important | Prerequisite | |
| | Informality and consumer abuses | | | | Helps | | |
| Public Sector and regulatory framework | Public funding | Inclusion of risk reduction in major projects | Prerevaisite | | | | |
| | Public infrastructure | | Prereguisite | | | | |
| | Adequate level of supervisory capacity | Dedicated supervisor | Helps | Important | Prece duisite | Helps | |
| | High regulatory burden | | | | Important | | T |



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Recommendations

Nudge





Public Provision





Concessionary





Directive





How to apply the approach:



Target market: All adults with lowincome/rural focus **Product class:** Health, agriculture,

disaster risk, SOAT

Target market: Urban

Product class: Life and asset

Target: Low-income and/or rural

Product class: Life

and asset

Regulatory changes needed:



Continued and extended to catastrophic risk (e.g. earthquakes)

- Intermediation concessions
- Increase requirements for mass market products
- Stricter MI definition – generic and product
- Clear targets and monitoring





Questions and discussion







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