

Improving access to insurance for the low-income population in **Jamaica**

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Abbreviations

A2ii	Access to Insurance Initiative
ADR	Alternative Dispute Regulation
AML	Anti-money laundering
BIA	Banana Insurance Act of 1946
BB	Banana Board
BCF	Banana Catastrophe Fund
BCIC	British Caribbean insurance Company
BIP	Banana Improvement Programme
BMZ	German Federal Ministry for Economic Cooperation and Development
BNS	Scotia bank (Bank of Nova Scotia)
BOJ	Bank of Jamaica
CAC	Consumers Affairs Commission
CADRC	Commercial Alternative Dispute Resolution Centre
CARICOM	Caribbean Community and Common Market
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CDD	Customer Due Diligence
CFT	Combating the Financing of Terrorism
CIB	Coffee Industry Board

CoB	Coconut Board
CPC	The Chief Parliamentary Counsel
CSME	CARICOM Single Market and Economy
CU	Credit Union
CUNA	CUNA Mutual Group/CMFG Life Insurance Company
DBJ	Development Bank of Jamaica
DCFS	Department of Cooperatives and Friendly Societies
DRF	Dispute Resolution Foundation
DTI	Deposit Taking Institution
EUBSP	European Union Banana Support Programme
EXIM	The National Export-Import Bank of Jamaica
FGD	Focus Group Discussion
FOMIN	Multilateral Investment Fund member of the IDB Group
FSC	Financial Services Commission
FTC	Fair Trade Commission
GCT	General Consumption Tax
GDP	Gross Domestic Product
GK	Grace Kennedy
GNI	Gross National Income
GOJ	Government of Jamaica
GWP	Gross Written Premium
IADB	Inter-American Development Bank
IAIS	International Association of Insurance Supervisors
IDB	Inter-American Development Bank
IMF	International Monetary Fund
JADEP	Jamaica Drugs for the Elderly Programme
JAMFIN	Jamaica Micro Financing Association Ltd.
JAS	Jamaican Agricultural Society
JCCUL	Jamaica Co-operative Credit union League
JCIA	Jamaica Co-operatives Insurance Agency Limited
JIIC	Jamaica International Insurance Company
JNBS	Jamaica National Building Society
KYC	Know Your Customer
LAC	Latin American and Caribbean
M&E	Monitoring and Evaluation
MDG	Millennium Development Goals
MFI	Micro Finance Institutions
MoAF	Ministry of Agriculture and Fisheries
MILK	Microinsurance Learning and Knowledge
MoFP	Ministry of Finance and Planning
MSME	Micro, small and medium-scale enterprises
NCB	National Commercial Bank of Jamaica
NHF	National Health Fund
NHT	National Housing Trust
NIS	National Insurance Scheme
NPCB	National People's Cooperative Bank
NUCS	National Union of Co-operative Societies LTD

OUR	Office of Utilities Regulation
PC Bank	National People's Cooperative Bank
PIOJ	The Planning Institute of Jamaica
POS	Point of Sale
PPP	Public Private Partnerships
PSOJ	Private Sector Organization of Jamaica
RADA	Rural Agricultural Development Authority
ROSCA	Rotating Savings and Credit Associations
SME	Small and medium-scale enterprises
SSF	Self-Start fund
STATIN	Statistical Institute of Jamaica
TDR	Traditional Dispute Regulation
TIP	Teacher's Income Protector Friendly Society
TRN	Tax Registration Number
UL	Universal Life
VMBS	Victoria Mutual Building Society
WHO	World Health Organization

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Executive Summary

In an economic turbulent time, the insurance industry has maintained a strong and reliable contribution to the economy. Jamaica has experienced difficult economic times where GDP growth was negative in 2012 and the dollar experienced 25% devaluation over the past 3 years. Interest rates and unemployment are high and Jamaica has agreed with the International Monetary Fund (IMF) to reduce its high debt ratio of 130% by incorporating tough economic measures. Notwithstanding the difficult economic times, the insurance gross premiums still had growth rates of 6-14% between 2010 and 2012, further, insurance penetration maintains approximately a 5% contribution to GDP.

High combined ratios present a challenge. In 2012, the insurance industry had a combined ratio of 115%. A high industry expense ratio of 46% across both the life and nonlife segments is a cause for concern especially for some of the smaller companies who are experiencing expense ratios larger than the average. The loss ratio of 69% is driven by the life sector that experienced a 74% loss ratio versus the nonlife sector having a 57% ratio¹. There has been a noticeable increase in motor vehicle claims resulting in companies changing their management and monitoring procedures.

In 2012, the life insurance segment accounted for 52% of the industry's gross written premium. There is a strong representation from "Universal Life" (UL), in 2011 and 2012 UL sales were 89% of all life *new* sales². Health and sickness products accounted for approximately 30% of the total life gross written premium in 2012 while annuities were 14% of the life premium. Credit Life products are prevalent (and mandatory at a few institutions if loans are higher than a threshold amount) however no detailed data was available to quantify the in-force amounts.

The nonlife segment is dominated by mandatory motor vehicle insurance and property insurance as each had a 47% share of the general gross written premium in 2012. Commercial property insurance dominates sales with 71% of the total property in-force gross written premium in 2012. The remaining general products are liability insurance and miscellaneous products such as short-term accident and agriculture.

Government insurance initiatives have existed in agriculture (Banana Insurance, Coffee Industry Board, and Coconut Insurance) to assist farmers in the event of catastrophe. At this point only the coconut insurance scheme is operational; however, the other two are looking for insurance solutions for their sectors.

In such context, the Financial Services Commission (FSC) requested a microinsurance country diagnostic as they are interested in developing the microinsurance market and, more broadly, opening new markets to insurance. The intention of the country diagnostic is to review the current market and

¹ These ratios were calculated based on information in FSC's annual report, IAJ's yearbook and the additional information files provided for by FSC. The methodology is from Wipf & Garand, Performance Indicators for Micro Insurance: A Handbook for Micro Insurance Practitioners (2nd Edition), 2010.

² The 89% excludes health and riders from the total premium creating an approximate 1% error. The ratios were derived from data provided by Insurance Association of Jamaica (IAJ) and include all Universal Life investment and risk premiums for all UL products including interest sensitive and equity linked. Data indicating Universal Life as a proportion of the total life gross premium was not available.

regulations and indicate what adjustments would be required to make the environment more conducive to microinsurance.

Even though microinsurance regulations do not exist at this point, FSC, in response to industry initiatives, has made a first attempt at categorizing products as such, by using premiums as a determining factor. For the purposes of the diagnostic, the microinsurance definition focuses on products reaching the lower income population. The consultant team looked at client vocations and income levels along with product affordability and distribution channels that have access to the lower income population to identify products that are currently reaching the target market.

This diagnostic found that the Jamaican microinsurance market is in a nascent stage, given that there are few insurance products in the market that fit the characteristics of microinsurance products and the few products that are there, offer simple covers. Recently three products were launched that FSC acknowledges is microinsurance and even though there are no microinsurance regulations in place, efforts were made to recognize the unique features of these products in the review process. During the diagnostic review, two other insurance companies were found to be offering products that are microinsurance based on the definition used for the diagnostic, but have not been officially recognized as such by FSC. Most of these microinsurance products offer covers against death and personal accidents. Based on industry interviews, the current insurance market requires new products, innovation and an expansion into new markets with products and channels that are more accessible for the unserved or underserved population.

A characteristic of the Jamaican market is the use of a broad number of alternative distribution channels, such as cooperatives, credit unions, bill payment platforms, building societies, friendly societies and partnerships with government departments. Given this characteristic, one could say that the microinsurance market is heading in the right direction to become a growing microinsurance market, as innovative distribution is a key element for improving access. However, given that the current regulations only allow brokers, agents and sales representatives to sell insurance policies, the distribution of microinsurance products by these alternative distribution channels is generally undertaken through group insurance policies. The use of alternative channels uses a group policy acquired by the channel entity that then sells the insurance to participants by enrolling them into the group policy.

The consultant team estimated the current microinsurance target market to be around 1.6 million people which includes 2 million Jamaicans if dependents under age 14 are included. As Jamaicans commonly turn to out of country relatives for financial assistance, the Jamaican Diaspora could be a market for insurance policies (as seen in El Salvador) therefore an additional 1 million people can be added to consider the Diaspora. The consultant team estimated that there are 1.3 million³ Jamaicans in the microinsurance target market with 1.7 million insurance policies (or certificates in the case of group members). These products include life insurance as part of credit union memberships, utility bill insurance provided for loyal customers (covers utility bill payments in case of an accident), life insurance with health and investment options and mandatory motor vehicle insurance.

³ There is a margin of error in the values as we are unsure of some sales numbers and how many of the insurance products are actually reaching this segment of the population.

Given the relatively small population of Jamaica (2.7 million) and the need for the industry to reduce costs it is imperative that distribution channels are opened up for microinsurance and that changes are made to promote insurance for all Jamaicans. We recognise the important efforts that are currently being made in order to increase financial inclusion in the country. Such efforts will have an important impact on the development of the microinsurance market. Amongst such efforts we can mention the regulations that are in progress for non-banking agents (NBAs), Mobile Money and Micro Finance Institutions (MFIs). These new financial modalities are excellent contact points for the microinsurance target market, but are not allowed to sell insurance under the current regulatory framework. However, we believe that additional measures need to be adopted in order to promote and encourage the development of a responsible microinsurance market.

Considering that the microinsurance market in Jamaica is a nascent one, in order to promote its development it is essential to: (i) confront the identified supervisory and regulatory obstacles in order to incentivise providers to offer microinsurance products responsibly; (ii) encourage providers to realise the potential of the microinsurance market to innovate and offer products with value; (iii) promote demand, (iv) but at the same time foster trust by protecting microinsurance consumers and making sure that they will be empowered to use the microinsurance products they purchase.

Success of creating and implementing change will depend on the participation and input of everybody in the value chain from FSC and other regulators to insurance companies and distributors.

The recommendations for the diagnostic can be grouped into categories representing supervisory and regulatory issues, the industry and consumer protection. The three tables below are helpful to understand and implement the recommendations presented in sections 7.1 to 7.6.

Table 1 describes the supervisory and regulatory recommendations that can overcome the identified deficiencies.

Table 1: Supervisory and regulatory shortcomings and their recommendations

The shortcomings to confront....	The recommendations to do so....
Lack of clarity about the playing field for microinsurance products caused by disperse and sometimes contradictory regulations	Enact a comprehensive regime for microinsurance where the rules for providers are clearly established and easily accessible
Non-licensed insurance companies are offering microinsurance products and the supervision of these schemes is unclear	Map possible informal insurance and monitor it in order to ensure effective consumer protection
The lack of consolidated data for current insurance products, could be present as well in microinsurance	Obligations of insurance companies to present disaggregated information for microinsurance products should be analysed. In that case FSC should consolidate data separately for microinsurance
Lack of dialogue and articulation between supervisory authorities	Promote dialogue amongst these supervisory authorities around the topic of microinsurance
Barriers to risk carriers	FSC could analyse if mutual insurance companies offering only microinsurance products could see their prudential requirements reduced
Barriers to use new distribution and transactional platforms	Facilitate outreach and formalisation by removing access barriers to use new distribution channels and transactional platforms

Clarity regarding the registration process for microinsurance products is needed	Provide a clear set of rules for the registration of microinsurance products with the FSC, ensuring transparency, rapidity, simplicity and effective consumer protection
Weak regulatory requirements for the insurance activity and contract in respect to how providers should treat consumers	<p>Ensure that consumers provide a free and informed consent when entering into microinsurance contracts by ensuring that contractual documents contain all the necessary information, are delivered quickly, in a timely manner and in a simple way.</p> <p>Enabling distribution channels to be proportionally trained to deliver insurance products.</p>
There are shortcomings in respect of access and awareness of complaints-handling and dispute resolution mechanisms	FSC and CAC should promote awareness and access through simple mechanisms about the existence of complaints-handling and dispute resolution mechanisms. FSC could ensure that reports on complaints-handling are effectively available and intelligible for microinsurance consumers, CAC, consumer associations and the industry in general.

The below chart summarizes the recommendations that can assist in meeting the three identified industry objectives.

Table 2: Summary of industry recommendations

Industry Objective 1: Improving supply of microinsurance products that have value to the customer	
<p>a. <u>Improve capacity of the providers:</u></p> <ul style="list-style-type: none"> • Management, staff, marketers, agents and sales representatives should identify and understand the challenges of microinsurance business and receive training at all organizational levels. • Improve the insurer’s capacity to deal with new types of channels, formulate criteria on maintaining successful partnerships and provide training to improve the intermediaries’ capacity. • IAJ can assist the microinsurance development process by researching products and case studies of global microinsurance schemes and sharing them with the industry • Conduct market research to study in detail the needs and affordability of the target market and to assist with product design for defined sectors (i.e.) agriculture, fishers. 	
<p>b. <u>Improve product offers:</u></p> <ul style="list-style-type: none"> • New microinsurance providers should start with the simpler products first. Product enhancements can be added in a second step. • Create partnerships with those who know the needs of the clients • Create affordable products that have a savings element and are designed for the target market. • The products should provide sufficient real value to microinsurance consumers. • Industry providers should improve their efficiency to reduce expenses. 	
<p>c. <u>Adoption of appropriate public policies:</u></p> <ul style="list-style-type: none"> • Public Private Partnerships (PPP) have proven an effective way to take advantage of the government’s access to the target population. More of these partnerships are encouraged. 	
Industry Objective 2: Improve demand and take up	
<ul style="list-style-type: none"> • A financial inclusion strategy should be institutionalised, with coherence between all the entities that are involved in supporting the financial agenda on the same page. Financial education and microinsurance need to be part of this strategy. • To ensure strong mandatory products are offered, stronger regulations on quality, fairness to customer and product value would be necessary and the industry would need to provide easily understood product explanations to clients. • Create initiatives that link the Jamaican Diaspora to purchase microinsurance products to utilize the popular risk coping mechanism of out of country family providing financial assistance. • Promote trust between the client, distribution channel and provider in order to increase take-up. 	
Industry Objective 3: Have a cohesive industry effort in the creation of an efficient microinsurance market.	
<ul style="list-style-type: none"> • An option is to create a microinsurance committee where all stakeholders, from insurance companies to intermediaries participate or provide input to the committee in order to have a cohesive industry effort that facilitates change. 	

The table below, which followed the assessment methodology for consumer protection in microinsurance presented in the paper “Pure intentions and practice: Challenges and Good Practices in Consumer Protection (Zimmerman, Magnoni and Camargo 2013) provides an overview of the recommendations on consumer protection that are presented in this diagnostic.

Table 3: Summary of consumer protection recommendations

Issue	Recommendation
1. Information & education	
1.1. Financial education on insurance to consumers	Adopt a financial education strategy that will be part of a comprehensive financial inclusion strategy where insurance is included. Entities such as the DBJ, FSC, BoJ, MoF, CAC, and other governmental entities and the private sector must participate in this process. Special attention must be paid on ensuring that financial education strategies are based on the evidence, contents are analysed in detail and monitoring and impact evaluation mechanisms are implemented.
1.2. Financial education and training for intermediaries and distribution channels	Financial education for new distribution channels and/or microinsurance intermediaries is needed and could be part of the financial education strategy. Insurance companies must ensure that distribution channels and/or microinsurance intermediaries are effectively trained to sell the microinsurance products and treat consumers fairly.
1.3. Disclosure of information to consumers:	Consumers must receive transparent and full information in a timely manner. At the moment of entering into the contract, policies should be simplified but essential information ⁴ must be included in such simplified policies. The industry can play an important role by ensuring the standardization of certain clauses and the identification of abusive clauses. Distribution channels and /or microinsurance intermediaries must comply with disclosure obligations all the time and must ensure that they do not misrepresent the products. The industry can verify the compliance of these obligations by these distribution channels through client surveys, cross-calls, etc. In any event, insurance companies are always liable for any wrongdoing of distribution channels.
2. Design and delivery of product and process design	
2.1. Appropriateness of the products to the needs of consumers	FSC should require a justification of the product which will be similar to a market study which will prove that the product respond to specific needs of the target market. Consumers would be aware of the products that are “microinsurance products” through the use of a stamp. Insurance companies need to go through an important process of capacity-building in microinsurance to understand the target market and ensure that their products have real value for them.
2.2. Protection of data and money shared by consumers	FSC should ensure that all data shared by consumers and moneys paid to distribution channels are effectively protect. The insurance companies must adopt internal practices that ensure this protection.
2.3. Claims handling process	Insurance companies must ensure that claims handling processes are accessible and affordable to the microinsurance consumers. The insurance companies and IAJ should adopt better practices for claims handling processes. Amongst these practices we suggest that documents generally required to support claims would be reduced, short deadlines would apply, and transparent communications, informing available next steps, are provided on time to beneficiaries.
2.4. Complaints-handling mechanisms (internal and external)	FSC should ensure that all insurance companies implement internal complaint-handling mechanisms, which would be accessible and affordable for microinsurance consumers. FSC must consider that involved costs to file complaints, such as calls, transport, amongst others, could be a dissuasive to complain for microinsurance consumers. In addition, FSC

⁴ The essential information refers to covers, exclusions, claims processes (required documents, applicable procedures, etc.), rights, obligations, complaint-handling and dispute resolution mechanisms.

Issue	Recommendation
	and CAC should ensure that microinsurance consumers are aware about internal and external complaints-handling mechanisms. Certainly, this information should be provided in the contractual documents but FSC and CAC could disseminate information about these mechanisms. External mechanisms must be accessible and affordable as well.
2.5. Dispute resolution mechanism	Jamaica is in need of an affordable, accessible and impartial dispute resolution mechanism that could be used by the target market of microinsurance products. We recommend to FSC to ensure that this new mechanism would be affordable and accessible for the microinsurance consumer. It is essential to keep in mind the obstacles that the target market of microinsurance products confront in respect of access to justice. We recommend the adoption of ADR mechanisms such as conciliation and mediation. In addition, it is advisable to think about the possibility of the adoption of an insurance ombudsman, or a body that would play this role. Even if it is recommended that the industry participates in this DR mechanism, it is essential to ensure the impartiality and objectivity.
3. Financial soundness of providers and programs	
3.1. Licensing and prudential requirements	FSC should map all exceptional regimes where non-licensed insurance companies offer insurance-alike products. The IAIS has emphasized the importance of ensuring formalization and proportionality of risk carriers. FSC should pay special attention to possible unfair practices and possible risks of financial insecurity of these exceptional regimes.
3.2. Disclosure and reporting requirements	We recommend that insurance companies report to FSC separately the information related to microinsurance.
3.3. Approval processes of microinsurance products	All microinsurance products should be registered, however this process must be “file and use”, and it must be also quick and simple. If FSC has questions regarding the product, it is suggested to adopt a tight timeline where the registration process do not take more than 2 months in total. We recommend that FSC analyses the possibility of allowing a fast-track registration for pilots. In such cases monitoring from FSC is required, therefore it is suggested that insurance companies with pilots file report of the pilots to FSC each month. Pilots could be defined depending on the number of clients.
3.4. Access to distribution channels	It is advisable to remove barriers to allow new distribution channels and/or microinsurance intermediaries, however it is essential that they are trained, liable and that they treat consumers fairly. In order to ensure training it is important to use existent training tools, as the “College of Insurance and Professional Studies” of IAJ and the platform offered by JAIFA.
4. Capacities of various stakeholders	
4.1. Primary responsible for consumer protection	FSC, CAC and the FTC are the responsible entities to protect consumers in Jamaica. It is essential that they have a common dialogue regarding the importance of protecting microinsurance consumers and to avoid redundancy or conflict between them.

1 Introduction

1.1 Study background and methodology

“Implementation of Regulatory and Supervisory Standards in Microinsurance Market in Latin America” (The Project) is a joint project of the Inter-American Development Bank (IADB) and the Access to Insurance Initiative (A2ii). The IADB is the administrator of the Multilateral Investment Fund (FOMIN, as per its acronym in Spanish), while the A2ii, the implementing partner of the International Association of Insurance Supervisors (IAIS) in terms of financial inclusion helps build insurance supervisors’ capacity through effective policy, regulation and supervision in order to enhance access to insurance, especially for low-income customers. The activities of the Initiative are managed by a Secretariat hosted by the GIZ in Germany.

The goal of the project is to increase availability of sustainable insurance products tailored to the needs of the low-income population in Latin America and the Caribbean (LAC). Partner jurisdictions are Colombia, Jamaica and Peru. The project’s objective is to develop a policy and regulatory environment that enhances inclusive insurance markets in the region. The project consists of three components:

- (1) Implementation of access oriented country diagnostics (market and regulatory framework) in Peru, Colombia and Jamaica;
- (2) Support for the implementation of regulatory reforms in all three of the above jurisdictions, and
- (3) Promotion of learning and knowledge in the region⁵.

The objectives of the *first component*, the country diagnostic, are twofold: firstly, to identify enabling factors, opportunities and barriers in the existing insurance market in order to provide recommendations to insurers, distribution channels, regulatory and supervisory authorities and any other stakeholder engaged in the microinsurance value chain. Secondly, the country diagnostic aims to encourage dialogue between all relevant parties in the public, private, formal and informal sectors. To fulfil the *second component*, a regulatory roadmap is developed from the diagnostic findings to provide guidance to the regulator as to reforms that will enable a more inclusive insurance environment. Finally, the *third component* is to support learning mechanisms in the region to develop the necessary knowledge and processes needed for successful microinsurance operations.

Methodology

To fulfil the project objectives the landscape has been divided into four sectors: context, demand, supply and regulatory issues (including policy and supervision). The diagnostic team used the methodology as

⁵ (Terms of Reference: Microinsurance Country Diagnostic for Jamaica 2013)

described in Toolkit 1⁶ and Toolkit 2⁷ of the A2ii and was also inspired by other country diagnostics, specifically those conducted in Peru⁸ and Nigeria⁹.

The Jamaica country diagnostic is an evidence-based analysis, conducted through desk research of documents, studies and news articles, along with interviews with stakeholders participating in every element of the microinsurance value chain in the formal and informal insurance sectors. The team was in Kingston and interviewed stakeholders from November 3 to 15, 2013 and focus group discussions were held by Mona School of Business and Management from November 28 to December 5, 2013. In addition, for those that the team could not see in Kingston, phone interviews were held in the months after the in country visit. In total 41 stakeholders and 46 interviews occurred as indicated in Annex 1.

The report includes information from the interviews held from November 3, 2013 to February 5, 2014 and information gathered and received up to August 25, 2014.

Report Structure

The report is divided into 7 sections including **Section 1** – this introductory section. **Section 2** provides Jamaica’s country and financial context to provide relevant background information that may impact microinsurance. **Section 3** provides insights and analysis for the demand side of the landscape obtained from the FGD’s and desktop research and **Section 4** explores the supply side of the diagnostic including the insurance environment, risk providers, distribution and describing current microinsurance products. **Section 5** outlines policy, supervision and regulations that are relevant to microinsurance and **Section 6** reveals the important findings garnered from the information in the previous sections. Finally, **Section 7** offers recommendations to encourage the development of the microinsurance market.

1.2 Definitions and analytical framework

Before exploring the insurance landscape in Jamaica, it’s important to clarify the definition of microinsurance and products that may fit into that definition and also who, in practical terms, would be considered as the target market for microinsurance.

1.2.1 What is microinsurance?

Many different definitions exist for microinsurance. The International Association of Insurance Supervisors (IAIS) defines microinsurance *as insurance that is accessed by low-income population, provided by a variety of different entities, but run in accordance with generally accepted insurance practices (which should include the Insurance Core Principles). Importantly this means that the risk insured under a microinsurance policy is managed based on insurance principles and funded by premiums*¹⁰. Microinsurance is not confined by product type, distribution channel or provider, but

⁶ (Bester , Chamberlain and Hougaard, Access to Insurance Initiative - Toolkit No.1 Microinsurance Country Diagnostic Studies: Analytical Framework and Methodology 2010)

⁷ (Bester , Hougaard and Chamberlain, Access to Insurance Initiative - Toolkit No.2 Country Process Guidelines for Microinsurance Market Development 2010)

⁸ (Camargo and Furst Gonçalves, Encouraging access to insurance in Peru: Reshaping the insurance environment for the underserved and unserved 2014)

⁹ (Dias, Garand and Swiderek 2014)

¹⁰ (IAIS-CGAP Joint Working Group on Microinsurance 2007)

defined by the income level of the target population. Based on this definition, premiums must be paid for a product to be defined as microinsurance and therefore government social welfare programs or emergency/disaster assistance is not included.

One of the cornerstones of microinsurance is achieving sustainability by offering products that have low premiums to large numbers of people. Typically, partnerships are made to reach the target population. Throughout the world, partnership examples include, cooperatives, MFI's, community based organizations, cell phone companies, NGO's and the government.

This study has the objective of improving access to insurance for the lower income population so strategies of opening the market to more people are explored. Microinsurance is not "one size fits all" so different products are needed to serve the needs for different sectors within the target market.

This study adopted the definition of microinsurance of the IAIS. We used this definition to identify insurance products that are currently offered in Jamaica that have the characteristics mentioned above, as microinsurance products. We qualified certain insurance products available in the market as microinsurance, even though these products are not qualified officially in Jamaica as "microinsurance products", basically because Jamaica does not have a particular regulation of microinsurance, and currently does not demarcate that kind of product from conventional insurance.

1.2.2 What is the target market of microinsurance in Jamaica?

For practical purposes, to assist the industry during diagnostic interviews in understanding microinsurance and the persons that would be covered, microinsurance was defined as insurance products targeted to the population who has been generally unserved and underserved by insurance products in Jamaica, which are generally the "low-income populations". Box 1 summarizes the criteria used to determine the microinsurance target market.

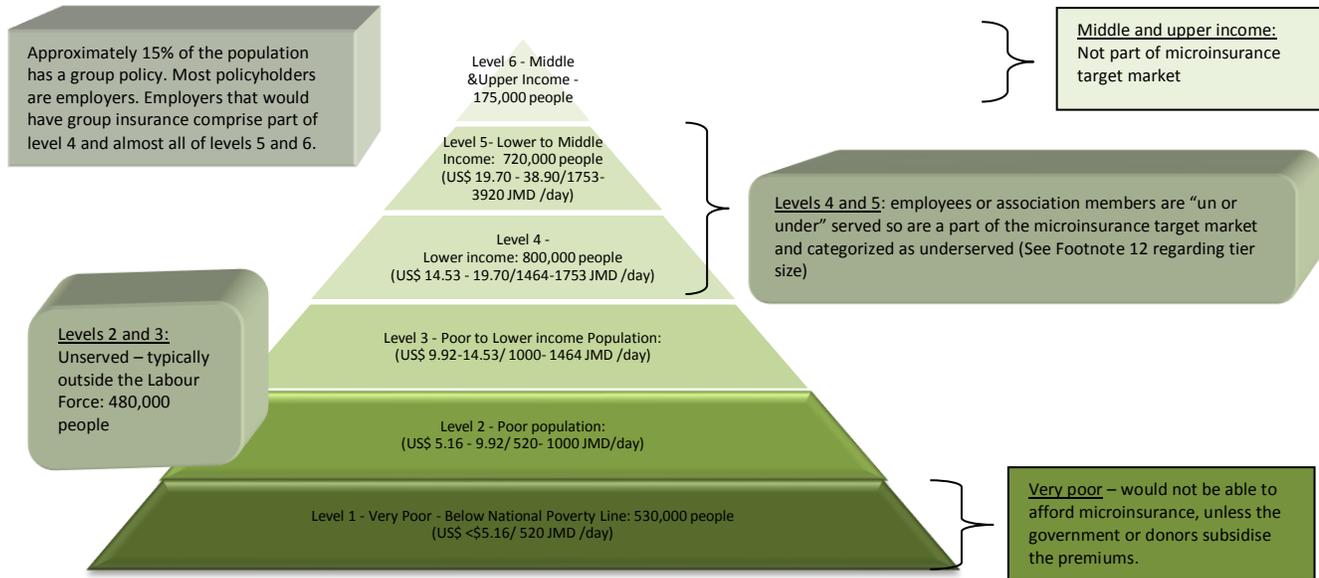
Box 1: Criteria used to determine the microinsurance target market

Box 1: Criteria used to determine the microinsurance target market

- Insurance distributed through institutions providing financial services to population generally excluded from traditional financial services (credit unions, friendly societies providing financial services, cooperatives, MFIs).
- Insurance offered to members of certain groups or associations. Amongst them groups of: fishermen, small scale farmers, taxi drivers, domestic workers, employers in certain activities where the target market is generally employed.
- The lower tiers in the Development Bank of Jamaica's informal sector definitions: Micro entrepreneurs (less than 10 employees); small to medium entrepreneurs (50 to 150 employees); small hotels (less than 150 employees) which do not offer benefits to their staff. See Annex 2, Section 2 for different MSME definitions used in Jamaica.
- For this study, microinsurance also considers the credit life insurance offered to these segments of the population.

To quantify the market, given that there is no comprehensive tool in Jamaica which segments the population in socio-economic levels, the diagnostic team divided the population as seen in Figure 1. The development of the chart is explained in Annex 2, section 1.¹¹

Figure 1: Income segmentation and microinsurance in Jamaica



In Figure 1, levels 2 and 3 represent the unserved population and are the immediate microinsurance market. The underserved population¹² (levels 4 and 5) is typically those who do not have access to a group policy through associations or employers.

We anticipate that the total microinsurance market totals approximately 1.6 million people over age 14 covering 2 million Jamaicans including dependents¹³. Table 4 indicates how the total is allocated to the unserved and underserved population. Since the Jamaican Diaspora is a common risk coping

¹¹ The pyramid indicates the estimated population including dependents at each tier, not just the workers. Exchange rates use the average 2013 rate from BOJ of 100.77, except for the 1,753 JMD converted to US\$19.70 in level 4 and level 5 which used the 2012 rate of 89 as this is a 2012 US\$ value from the World Bank representing GNI/capita.

¹² **Level 4:** Income data was not available for 740,000 of the 800,000 so based on the occupation descriptions these are likely association members and were placed in lower income as their highest income tier. We realize these persons probably span levels 2 to 4, but are underserved as they could have insurance through their associations. **Level 5:** Income data was not available for 330,000 of the 720,000 so based on the occupation descriptions, these are likely occupations spanning levels 4 and 5, but were placed in level 5 to represent their highest income tier. Tier totals were developed using STATIN labour force/outside labour force numbers and labour force definition (which includes industries typically considered as informal such as agriculture, fisheries and domestic workers (these industries did not have income data)) and then increased to represent the entire population. Income by occupation was split by average income earned by wage earners and salaried workers to allocate those workers to the most appropriate tier.

¹³ There is a margin of error in this estimate as some data is missing and there is no exact number as to the amount of coverage in the different categories that people actually have. Those under age 14 are assumed to be allocated proportionately when considering the entire population of Jamaica.

mechanism and could be used to fund insurance, an additional million people has been added to the potential market. Those below the poverty line would not be able to afford microinsurance.

Table 4: Microinsurance target population estimation

	Total Age 14+	Total Jamaicans including dependents
Unserved (levels 2 and 3)	400,000	480,000
Underserved (levels 4 and 5)	1,200,000	1,520,000
Jamaican Diaspora	1,000,000	1,000,000
Total	2,600,000	3,000,000

We estimate that there are 1.3 million¹⁴ Jamaicans who could be considered as the microinsurance target market who own 1.7 million policies (or certificates in the case of group members) that we have categorized as microinsurance for the purpose of this study. This number of 1.7 million microinsurance coverages is explored further in Box 2.

Box 2: Questioning the 1.3 million people with 1.7 million microinsurance policies or certificates

Box 2: Questioning the 1.3 million people covered with 1.7 million microinsurance policies or certificates

On first glance, 1.3 million people covered out of a potential market of 1.6 million people (those over age 14 as seen in Table 1) in Jamaica gives the impression that the population is well insured. On closer inspection, a different story emerges that shows room for growth in this sector. Out of the 1.3 million, we estimate that 72% (or 940,000) of these are included with membership or customer loyalty so no direct premium is paid for the coverage. Given that the target population has high usage of these channels, a large percentage of their clients are considered as having microinsurance policies or certificates.

The two channels comprising the majority of the microinsurance coverages in Jamaica are composed of:

- Life insurance that is automatically provided to those with a credit union savings account. A large portion of credit union members are the target population. As the insurance benefit is tied to the bank account balance and no underwriting requirements are in place, the claims ratio for this product is high which would be expected for an unscreened product, however, many people do not realize they will receive this benefit and the payout comes as a surprise for most families, albeit a welcome one.
- Accident insurance that pays the household utility bill for 2 months when a disability (including broken limbs and major cuts) occurs that interferes with the ability to perform daily job functions. Insurance is conditional on a continuous history of paying bills at Bill Express (a bill payment transaction centre which is utilized by the mass population of which a large portion is part of the target market).

In addition, given that a challenge with embedded coverages around the world is that clients are unaware of the coverage and that even though these payouts help cope with the risk event, they aren't sufficient to overcome the large portion of financial stress related to these events (see below box note), there is room for more insurance coverage to help the target population cope with these risk events and others.

Note: Bank balances of the lower income segment are likely to be minimal and utility bills are a low portion of expenses that are faced when a disability occurs.

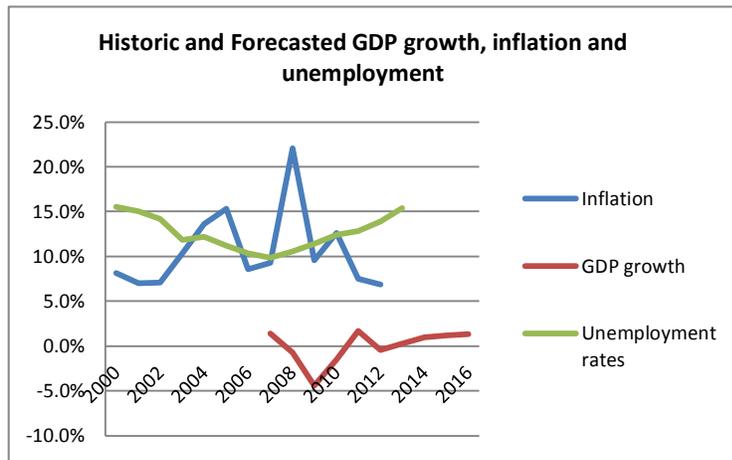
¹⁴ There is a margin of error in the values as we are unsure of some sales numbers and how many of the insurance products are actually reaching this segment of the population.

2 Context

Understanding the broader context of the country helps ascertain the potential of microinsurance in Jamaica as the environment that the target population faces ultimately impacts their attitudes, financial vulnerabilities and purchasing decisions. The context will be examined in a broad sense as only factors impacting microinsurance will be presented.

2.1 Macro and socio-economic context

Figure 2: Historic and forecasted GDP growth, inflation and unemployment



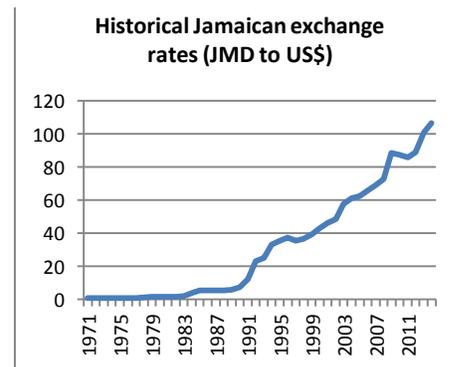
Source: (Bank of Jamaica, n.d.)

Jamaica has a relatively small population of 2.7 million people where 48% live in rural areas, however, given the size of the island no area is considered remote¹⁵. Accessibility and reaching scale are key aspects of microinsurance to achieve sustainability. Having the majority of the population close to services and financial institutions makes distribution of microinsurance more feasible and less costly; however reaching a critical number of clients that make the scheme sustainable is a challenge in Jamaica.

Jamaica is particularly prone to catastrophes; such as hurricanes, strong winds, earthquakes and heavy rain events affecting livelihoods, property and is a large factor in insurance risk. Hurricane Gilbert in 1988 was the last big hurricane experienced by Jamaica followed by Hurricane Ivan in 2004 and Hurricane Sandy in 2012. Typically, the southern shore of the island is hit by the hurricanes so the risk is fairly concentrated; however, flooding, heavy rains and the potential for earthquakes are weather events that realistically can cause a lot of damage.

Jamaica is making strong efforts to recover from the global recession. Benchmarks have been set by the International Monetary Fund (IMF) to ultimately reduce debt and revive the economy. In the process, the financial sector is being completely reformed and the country is going through an adjustment period adapting to the new constraints. Times are economically tough for

Figure 3: Historical Jamaican exchange rates to US\$



Source: (World Bank Data Bank, n.d.)

¹⁵ Remote would be more than 5 hours journey from a town or village so there would be limited or no access to services especially financial services. Various interviews supported this viewpoint that services are accessible to Jamaicans whether by foot, donkey, bus or car.

Jamaicans. At 2011, Jamaica was facing a debt to GDP ratio of 130%¹⁶, improving high crime and violence rates¹⁷ and a moderate corruption rating¹⁸. Jamaica is experiencing high unemployment and recent variances in both GDP growth and inflation (as seen in Figure 2) which combined with the Jamaican dollar's steep devaluation trend (illustrated in Figure 3), especially in the past 3 years¹⁹ has generated high prices and less disposable income.

The IMF strategy is focusing on debt reduction, decreasing budgets in the government sector²⁰, increasing taxes and decreasing the value of the local currency all in efforts to revive the economy. To reduce the debt ratio, the IMF agreement also has stipulated changes in the government pension plan to include mandatory employee contributions so it will be sustainable. With all these reforms the population is experiencing hardship as spending priorities are forced to change.

Remittances from the Jamaican Diaspora are the second largest source of foreign exchange behind tourism contributing US\$ 2.1 billion or 13.8%²¹ to the GDP in 2012. It is very common for Jamaicans to receive financial assistance from family living overseas. It is estimated that 1 million²² of Jamaicans live abroad with the majority in the United States, United Kingdom and Canada. The funds that are sent back to Jamaica are a significant part of the economy as those sending the funds are the children taking care of their parents and is their key source of financial security. Approximately 86.5% of remittances are transferred through remittance companies. Since 2012, when a lottery scam used remittance outlets as a collection point, companies have been backing out of remittances services and other remittance houses have tightened rules and conditions over use and collection of funds in order to minimize exposure to money laundering, financing of terrorism and lottery scams. BOJ has recently performed a due diligence on remittance houses and is awaiting the results.

The IMF indicates that Jamaica has a poverty rate of 43.1%²³; however, Jamaicans may have more disposable funds than first thought as the informal sector is strong with many Jamaicans having more than one job or “hustle” to make more money. Jamaica's economy is highly dependent on the service industry as it comprises 64% of the GDP and of the labour force²⁴. Extra jobs are very common in Jamaica and span the formal and informal sectors. Using October 2013 data from The Statistical Institute

¹⁶ (Central Intelligence Agency n.d.)

¹⁷ Crime rates continue to trend downward since June 2010. During the period January to June 2013, there was a decline of 10.6% in serious and violent crimes over the similar period of the previous year. The murder rate for January to June 2013 was down 3.4% over the similar period in 2012. This is the third consecutive year since June 2010 in which both rates have declined (Myers 2013)

¹⁸ Jamaica is 83rd out of 177 countries in the Corruption Perceptions index (Transparency International n.d.)

¹⁹ The 2011 exchange rate of 86 JMD to US dollars increased to 106.7 in January 2014 (Bank of Jamaica, n.d.).

²⁰ There is a five year wage freeze in effect for all public sector employees

²¹ (The Balance of Payments: The Remittance Report July 2013)

²² “statistics provided by the Migration Information Source and the Planning Institute of Jamaica for the periods 1970-2008 indicate that 915,371 people emigrated from Jamaica to the US, UK, and Canada. This, however, does not reflect those entering these countries legally but remaining illegally, those entering illegally, and others immigrating to other countries.” (Reynolds 22). VMBS also estimates that the Jamaican Diaspora is 1 million.

²³ The PIOJ, using a different methodology based on consumption, indicates the poverty rate is 19.7%. The source of consumption data is the annual Jamaica Survey of Living Conditions household expenditure survey conducted by the Statistical Institute of Jamaica and its most recent figure is for 2010 when it reported a poverty rate of 17.6 per cent (Thompson 2011). In recognizing the difficulty in determining income, the Ministry of Social Services also uses a test based on the expenditure survey that considers income, assets, education and other information to define a “poor” family for its assistance program.

²⁴ For this statistic from CIA World Factbook, the labour force is defined as those in the formal sector, the official unemployed and those looking for a job in the formal sector. For labour force distribution charts see Annex 2, Section 3.

of Jamaica (STATIN), it is estimated that 37.2% of those age 14 and older work outside the labour force²⁵ and therefore comprise a large portion of the informal sector. It is also estimated that the informal sector made up 43% of GDP in 2001²⁶ and in the opinion of the Planning Institute of Jamaica (PIOJ), the sector has remained stable²⁷. Stakeholder interviews indicated that approximately 10-20% of Jamaicans do not have a tax registration number (TRN) representing a sector of unreported income. A TRN is required for more formal activities such as being a Building Society²⁸ member, having a bank account or buying an insurance policy and in fact, 25.8% of the unbanked population indicated they did not have an account because they lack some of the paperwork such as a TRN²⁹. This is such a prevalent issue that the NIS division of the Ministry of Labour (in partnership with the Tax Authority and National Housing Trust³⁰ (NHT)) recently targeted transport operators to ensure they pay their statutory deductions (i.e.) pay tax, contributions to the NHT and participate in the National Insurance Scheme (NIS) in an attempt to increase tax compliance and participation in the NIS and NHT.

In 2012, the mobile phone sector had a 96%³¹ penetration into the population and 46.5%³² of the population accessed the Internet. Internet usage in Jamaica is continuing to increase while mobile phone penetration is below 100% for the first time since 2007. Even with this decrease in usage, with almost everyone in Jamaica having a mobile phone, telecommunications is a natural access channel to reach the people. The Bank of Jamaica (BOJ) released the “Guidelines for Electronic Retail Payment Services” in 2013 and two mobile pilot projects were authorized by the BOJ with non -objection status in 2013³³.

The government of Jamaica has formed mechanisms to help the agriculture sector ensure farmers have coverage for their crops through the Coffee Board, the Banana Fund and the Coconut fund. Efforts by the Jamaican government to assist the agricultural sector has met with varying degrees of success as the Banana and Coffee Funds have been depleted and are being re-organized while the Coconut Fund is healthy and sustainable. The structure of these funds is explained in the supply – other insurance schemes section.

²⁵ (Statistical Institute of Jamaica n.d.)

²⁶ (IADB Group of Analysis for Development (GRADE) researchers 2006)

²⁷ (Jackson 2012)

²⁸ See

Box 4: Non-banking institutions in the financial sector for a detailed explanation of Building Societies.

²⁹ (Dr Maurice McNaughton 2011)

³⁰ NHT is a statutory body which provides funding for housing construction primarily funded by mandatory deductions (for required employees) from Employers and the Self-Employed as well as from Employees and Voluntary Contributors. (National Housing Trust n.d.)

³¹ (World Bank n.d.)

³² (World Bank n.d.)

³³ See section Public Policy for more detail.

2.2 Social Security

According to FSC, approximately 15% of the formal labour force is covered by pensions with the remainder of the population relying on their children or family in general to support them in their senior years. At June 30, 2013, only 94,462 people or 8.53%³⁴ of the Jamaican employed labour force contributed to a pension fund. Governmental worker pension plans account for the remaining 6%. These plans do not have mandatory contributions; however, this will change with the implementation of the IMF agreement³⁵. National Insurance Scheme (NIS) also offers a pension) if a person has made the required number of contributions and has stopped working. In 2012, 430,585 persons contributed to NIS which comprised 40% of the employed labour force³⁶. The pension amount is relatively small³⁷ and is not included in FSC's pension statistics.

Universal access to health insurance is a subset of Jamaica's health policy. The government pays healthcare expenses for all Jamaicans, however long waiting periods, unmaintained equipment and no frills medical facilities make public healthcare services hard to obtain. Public health services are provided to Jamaicans at a highly subsidized cost³⁸. The public health sector has a wide range of coverage across the country; however there is a disparity in the quality of care between rural and urban areas. Since the government removed user fees in 2008, the same facilities serve a higher number of patients³⁹. Interviews with stakeholders throughout the value chain consistently indicated that the long waiting periods and high out of pocket costs for medications, tests and specialized services in the public health system make private insurance coverage desirable.

Aside from the free public healthcare, the other layers of health coverage include government subsidy programs and private health insurance or group health plans offered by employers and associations. It is very common in Jamaica for people to participate in three or four health plans from different sources to give more complete coverage. These layers of coverage can include the government programs as outlined below in Box 3 and a few group or private plans.

Box 3: Layers of health coverage in Jamaica

Box 3: Health Insurance in Jamaica

National Health fund (NHF) provides subsidies to help to pay for prescription drugs for 15 specific chronic diseases. (National Health Fund, n.d.)

Jamaica Drugs for the Elderly Programme (JADEP) provides payment subsidies for medications for those 60 or older diagnosed with one or more of the 10 specified illnesses. (National Health Fund, n.d.)

³⁴ (Financial Services Commission June 2013)

³⁵ The government plans are not regulated by FSC as they are not funded.

³⁶ (Dr. Tamoya Christie 2012)

³⁷ The NIS pension amount of a maximum of 2800 JMD/28 US\$ per week or 5.60 US\$ per day is just above the poverty line based on the socioeconomic breakdown shown in Figure 1.

³⁸ Government health expenditure comprised 4.93% of the GDP in 2011 and out of pocket expenses are US\$85-89 per capita (World Health Organization n.d.)

³⁹ (Milena Levigne 2013).

Group health policies are offered through employers (Government of Jamaica and most large institutions), alumni associations or other groups potentially covering the employees or members and their immediate family. This along with private insurance covers approximately 15% of the population.

The Programme of Advancement Through Health and Education (PATH) is a non-contributory program that delivers cash grants to the most needy and vulnerable persons in Jamaica. Children, the elderly, those with disabilities, pregnant and lactating women and the poor can qualify based on a Proxy Means test that determines eligibility. Payments are made by electronic payment or delivered by an identified agent to the post office. A base benefit of JMD 400 per month is paid to noncompliant beneficiaries; those that are compliant receive JMD 900 per month with higher payments given to children based on their gender and grade level in school.

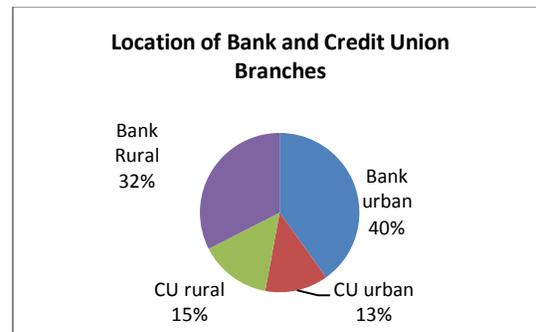
National Insurance Scheme (NIS) is an insurance based on mandatory contributions for all employed persons. It offers pension benefits and medical treatment under the Employment Injury Benefits part of the program (subject to certain conditions). Interestingly, when a pension is awarded, the pensioner automatically qualifies for coverage under the NI Gold plan (health insurance provided by Sagicor), a small benefit is offered for drugs, surgery, dentist, optical and hospital (National Insurance Scheme (NIS), n.d.). (Ministry of Labour and Social Security 2012). NIS offers various forms of disability, death and orphan benefits to all that have made appropriate contributions based on their earnings and employment status. As mentioned previously, in 2012, 40% of the employed labour force contributed to NIS.

The NIS benefits are relatively small and can only act as one of the layers of risk coverage. With the small benefits offered, as one company mentioned, when designing employee benefits programs, the NIS benefits are not even considered in product development. If the scale were increased, NIS would be recognized more in benefit packages or in selling NIS top ups.

2.3 Financial sector context

Jamaica has a wide range of institutions offering different and sometimes specialized services to their clients with good access for Jamaicans living across the island. 52% of Jamaicans live in urban areas⁴⁰ matching the 2010 distribution of urban bank and credit union branches across Jamaica (53%) as seen in Figure 4⁴¹. Overall, banks dominate the sector with 72% of the total bank and credit union branches.

Figure 4: Location of bank and credit union branches



Source: (CGAP, The World Bank Group 2010)

Table 5 provides a summary of the size of the sector's institutions and general accessibility in 2012 and Box 4 describes the non-banking institutions in Jamaica.

Overall commercial banks have the most assets by far. For the small amount of business credit unions conduct, they have 32% of the ATM's, but not even 10% of the total bank and credit union assets.

⁴⁰ (World Bank Data Bank n.d.)

⁴¹ (CGAP, The World Bank Group 2010)

Table 5: Selected financial institutions in Jamaica (2012)

Type of Institution	Number of Institutions	Number of branches or locations	Assets (JMD Billion)	ATM Terminals	ATM Machines per 100,000 people	Regulator
Insurance companies	15	60 (estimate)	259			Financial Services Commission (FSC) ⁴²
Banks	7	118	656	424	16	Bank of Jamaica (BOJ)
Near Banks ⁴³	2	4	22			BOJ
Building societies	4	52	203	68	2.5	BOJ
Credit Unions	43 ⁴⁴		71	233 ⁴⁵	8.1	Department of Cooperatives and Friendly Societies (DCFS), but in the process of transferring to BOJ
Cambios ⁴⁶	71	167				BOJ
Remittance services	9	444				BOJ
PC Bank	1	37	3.8			Agricultural Credit Board, but in the process of transferring to DCFS
Total Accredited MFI's (Listed below):	6 ⁴⁷					In Progress ⁴⁸
Access Financial Services	1	15	.88			
JN Small Business Loans ⁴⁹	1	30		53	2	
National Growth Microfinance	1					
Micro Credit Limited	1	5				
McKayla Financial Services Ltd	1	6				
First Union Financial Group	1	11				
Total Country ⁵⁰				723	26.6	

Source: (Jamaica in Figures 2012), (Bank of Jamaica, n.d.), (Klapper 2012) (Braham 18), FSC, (Access Financial Services Ltd, n.d.) (JNSBL n.d.) (NationGrowth Microfinance Ltd n.d.) (Micro Credit Limited n.d.) (First Union Financial Group n.d.)

⁴² FSC also oversees securities and pensions

⁴³ These are Merchant Banks operating under the Financial Institutions Act (FIA)

⁴⁴ 38 credit unions with 951,079 members were reported by the Cooperative apex organization (NUCS 2012)

⁴⁵ Calculation from Note 50

⁴⁶ Foreign Exchange traders

⁴⁷ DBJ reports that there are 9 accredited MFI's of which 3 are credit unions.

⁴⁸ MFI's are currently not regulated by a supervisory authority. In order to obtain funds from DBJ to lend to customers, MFI's currently must obtain an exemption to the Moneylending Act which creates a minimal level of monitoring for these institutions. The MFI bill introduced by Ministry of Finance and Planning (MoFP) in 2013 proposes a Micro Credit Act be enacted and a regulatory authority established (Ministry of Finance 2013)

⁴⁹ The JN Small Business Loan values are also included in the Building Society totals shown above as they are part of the JN Building Society

⁵⁰ Country totals are from the Global Findex website (Klapper 2012) include all institutions. We suspect the balance of the country totals net of commercial banks and Building Societies are the credit unions. If that is the case, there are 233 credit union ATM's representing 8.1 machines per 100,000 people.

Box 4: Non-banking institutions in the financial sector

Box 4: Non-Banking Institutions in the Financial Sector

Credit unions are part of the co-operative movement and are the target population's choice for financial services as they are accessible, well organized and have less formal criteria to obtain products. Credit unions are trusted more than banks as people feel part of the institution and don't feel intimidated. Processes are simpler at a credit union and there is easier access to products as a refrigerator or furniture can be used as collateral. They are regulated, but not supervised by the DCFS. Jamaica Co-operative Credit union League (JCCUL) acts as a quasi-regulator for credit unions as they provide oversight, supervision, lobbying and provide strengthening and support in the form of training and institutional loans. Recently, the Bank of Jamaica has come to an agreement with the credit unions to become their regulator.

The National People's Co-operative Bank of Jamaica Limited (PC Bank or NPCB) is well known as the agricultural loan society. The PC Bank movement spans over 107 years and has the largest number of branches of any financial institution in Jamaica which reaches 250,000-300,000 members throughout the island (except for Kingston). PC Bank is based in the Ministry of Agriculture and Fisheries. Financial services are primarily offered to farmers; however loans have recently targeted MSME's. Insurance is provided through CUNA/CMFG Life Insurance Company and recently JIIC's new parametric weather insurance product. PC Bank is known as the implementation or retail arm of DBJ where credit is provided to PC Bank so they can operate.

Micro Finance Institutions (MFI's) and lending companies geared towards the lower income population have experienced a recent explosion of growth. MFI's have less onerous loan requirements, provide mostly loans, not savings and weekly payments can be made. However, MFI's charge higher interest rates (50-60%) than the banks which typically lend at 18-25%. The Ministry of Finance recently created an MFI Bill that is a first step towards regulation. Development Bank of Jamaica (DBJ) was the Apex organization for MFI's until 2011. Since then, DBJ has been designated as the Government of Jamaica's lead agency for co-ordination of all related MFI industry interventions and carries out the functions of an apex along with technical support and training, but an official apex organization does not exist. The Planning Institute of Jamaica (PIOJ) and JAMFIN (see note below) are both planning to collect data on the sector, but at this time no aggregate data is available. DBJ has currently accredited 9 MFI's in Jamaica of which three are credit unions.

Building societies are well established in Jamaica, have a very recognizable brand and are strongly tied to the remittance transactions of the Jamaican Diaspora. They are mutual companies with a premise of saving money specifically to buy a house and the setup is similar to a cooperative as clients own an account and have the right to vote. Building societies are regulated by the Building Societies Act and the Bank of Jamaica. Due to increased competition, they are looking to expand their product base as banks are jumping into the mortgage market as mortgages now earn more than securities. Currently Building Societies offer insurance to their clients as part of a group policy. The majority (80%) of a Building Society's clients is middle or low income of which 15-35% live abroad as the Jamaican Diaspora. Transfers to their accounts are generally carried out online, or through remittances or money transfers. Branches are not necessarily needed as representative offices overseas and remittances services are provided through their established partners as all Building Societies are part of local conglomerates with partnerships that include banks, insurance companies and remittance outlets. It was highlighted that for Building Societies to comply with the BOJ regulations is very complicated, notably in respect to AML and KYC requirements.

Note: Jamaica Micro Financing Association Ltd. (JAMFIN) is a new association of the larger and more dominant microlending institutions in Jamaica. Advocacy services and participation in legislation development are key activities of this organization. There are currently 12 member organizations with a total of 20 organizations following the activities of JAMFIN.

The emergence and growth of MFI's over the past 10 years has spawned an industry that potentially can take advantage of clients and is vulnerable to money laundering activities due to unregulated governance standards; therefore an MFI bill has been introduced to begin the process of regulating the sector. According to the Ministry of Finance⁵¹, the growth of MFI's in a sector not regulated by a

⁵¹ (Ministry of Finance 2013)

supervisory authority has resulted in increased complaints to the Ministry of Finance in regards to high interest rates, aggressive collection tactics and predatory lending practices. In addition, as the lenders⁵² were not required to have a licence and report the names of their directors, the MFI's offer a potential prime entry point for money laundering and terrorist financing. Therefore the Ministry of Finance has proposed in its MFI Bill that to monitor the industry, protect consumers, increase transparency and reduce the risk for money laundering, a Micro Credit Act be enacted to provide for the licensing and regulation of privately-owned money lending institutions that are not currently regulated by a supervisory authority. The Bill proposes (to name a few), the appointment of a regulatory authority, registration of moneylenders, guidelines of conduct of moneylenders and the money lending agreement, requirements around interest rates, fees, record keeping and mentions consumer protection issues around the intimidation of the borrower.

A large percentage of Jamaicans have formal bank accounts, yet other sources are also heavily relied on for transactions, savings and loans. In 2011, 71% of Jamaicans had a formal bank account, but a gap exists between formal bank accounts held and bank usage statistics, indicating other informal mechanisms (savings clubs and family) are also relied upon⁵³. To increase the number of banked persons in Jamaica, the BOJ is changing regulations to allow certain banking transactions such as cash deposits and withdrawals within certain monetary limits to be carried out at third-party locations, including retail outlets⁵⁴. In the Banking Services Act, 2014, which is currently under discussion, BOJ has included guidelines to regulate agent arrangements.

There is little trust in the Jamaican financial sector due to its near collapse in the mid 1990's. Credit unions stayed strong during the crisis so they have the trust of the people. In 1996, five years of a weakening financial sector culminated in a scenario where banks closed or required assistance and government interventions were necessary to stabilize the industry⁵⁵. Adding to the distrust of the financial sector, in 2010, many people lost money in informal "ponzi" schemes that were rampant at the time.

Jamaica operates as a cash-based society where people strongly prefer cash transactions. Jamaicans prefer to pay for items in cash as even large purchases like a car are commonly paid in cash⁵⁶. It is estimated that only 12% of those that have an account have a transaction account⁵⁷. Few Jamaicans use technology for transactions and funds are preferred to be deposited directly at the bank teller as seen in Annex 2, Section 6.

The cooperative movement is the backbone for financial services and vocational activities of the lower income population as they are well organized and located throughout Jamaica in rural and urban centres. Co-operatives and credit unions, the financial institutions for cooperatives, have been in Jamaica since the 1940's and are well known to have direct access to the target microinsurance

⁵² In Jamaica, MFI's are loan only and are often called "moneylenders" (the Micro Credit Act also uses it)

⁵³ (Klapper 2012). See Annex 2, Section 4 and 5 for graphs on bank usage and sources of loans.

⁵⁴ (Collinder, BOJ Developing Agent Banking System to Reach the Unbanked 2013)

⁵⁵ Among other reasons, the interconnectedness between the conglomerate banks and the insurance companies facilitated inter-company loans when insurance companies discovered a mismatch between maturing assets and liabilities; ultimately weakening both the insurance and banking sectors (FINSAC n.d.).

⁵⁶ Due to the potential criminal element of cash transactions, the Banking Services Act, a new law currently under discussion opens the possibility to FSC to implement cash thresholds for agent arrangements

⁵⁷ (Dr Maurice McNaughton 2011)

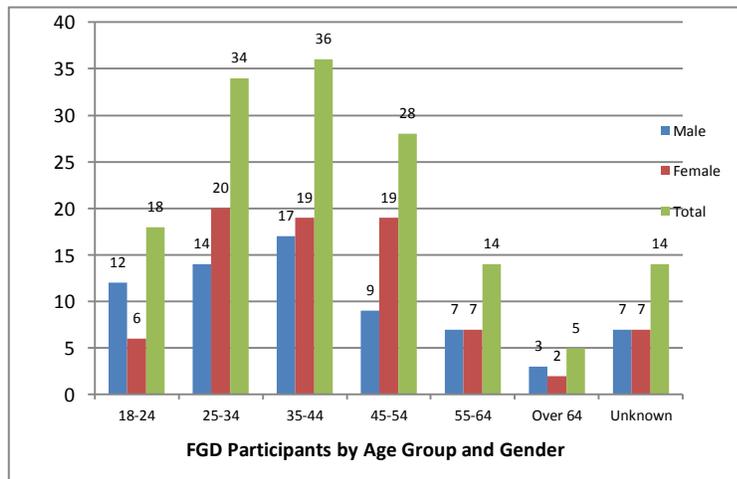
population. In 2012, the cooperative apex body, National Union of Co-operative Societies LTD (NUCS) indicated that there were over 1.2 million members in 165 cooperatives of which approximately 80% were credit union members. The cooperatives are governed by the Co-operative Society Act and are regulated by the Department of Cooperatives and Friendly Societies (DCFS). Insurance is offered through CUNA/CFMG and the cooperative general insurance registered agent JCIA. The structure of the co-operative sector is illustrated in Annex 2, Section 7.

3 Demand

As a part of the diagnostic process, the Mona School of Business and Management, University of the West Indies held a series of focus group discussions (FGDs) in which members of the microinsurance target market were interviewed for their opinions on their insurance needs, current coping mechanisms (including insurance use), awareness of and interaction with insurance, decision making criteria (factors determining whether they buy insurance or not) and perceptions of the insurance market.

This original work was complemented with information gathered from previous research including: a German Federal Ministry for Economic Cooperation and Development (BMZ) study on demand for weather-related microinsurance among Caribbean agriculture and tourist workers; a Jamaican financial literacy measurement exercise based on an Organization for Economic Cooperation and Development (OECD) survey instrument; and numerous stakeholder interviews by the consultant team (including a group discussion with five female micro entrepreneurs at the offices of Jamaica National Small Business

Figure 5: Age composition of the FGD's in downtown Kingston).



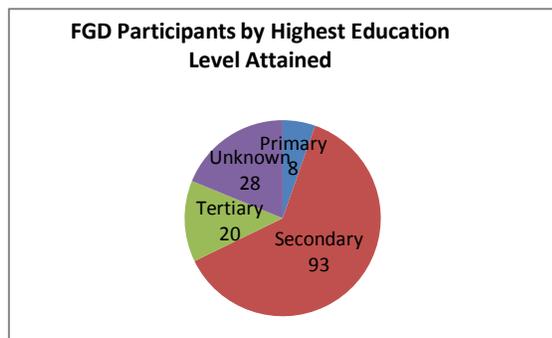
3.1 Focus Group Discussions

Between November 22 and December 5, 2013, a total of 16 FGDs were held across all 14 Jamaican parishes⁵⁸. In addition to keeping at least one FGD in each parish, the team carried out additional sessions in the country's largest urban areas (including the Kingston Metropolitan area and Montego Bay, St. James).

Each FGD included 7 – 12 persons; overall, there were 149 participants and, of these, 80 were female and 69 were male. The average age of the FGD's female participants was 40 years, slightly above the average age of the male participants (38 years). The average age of the entire group was 40 years, while the median age was 39 years. (See Figure 5)

⁵⁸ Clarendon, Hanover, Kingston, Manchester, Portland, St. Andrew, St. Ann, St. Catherine, St. Elizabeth, St. James, St. Mary, St. Thomas, Trelawny, Westmoreland.

Figure 6: Composition of the FGD's by highest education level



Source: Focus Group Discussions Report, Mona School of Business and Management, UWI

As shown in Figure 6, 5% of the 149 FGD participants reported that they had not received an education beyond the primary level. 76% of participants attended secondary school; of these, 13% continued on to tertiary education (including teacher training and theological school). 19% of participants did not provide educational data.

FGD participants were from a range of employment categories, with the greatest representation by farmers (10 respondents), housekeepers/domestic workers (10) and drivers (8). As shown in Table 6, among the 89 respondents who provided salary data, the average and modal reported salary was JMD10,000 (US\$100) per week or US\$20 per day.

Table 6: Average weekly salary of the FGD's

	Jamaican Dollars (JMD)	United States Dollars (US\$)
Average and Modal FGD Salary	10,000	100
Jamaican Minimum Wage (2013)		
Security Guards ⁵⁹	7,320	73
Other	5,000	50

Sources: Focus Group Discussions Transcripts, Mona School of Business and Management, UWI and Ministry of Labour and Social Security

3.2 Risk perception and experience

Most feared risks. Overall, FGD participants most fear being *sick and unable to work* as they associate this with a simultaneous loss of income and increases in health expenditure as can be seen in Table 7. For instance, a participant in the parish of Hanover explains: “When you are sick... it doesn't matter how much (money that you have), you can end up being bankrupt. Medication, transportation, and doctor bills are not easy to pay.”

Table 7: Most feared risks

Risk	Number of Recorded Responses	% of Total Respondents
Sick and unable to work	27	18%
Loss of job	14	9%
Fire	14	9%

Source: Focus Group Discussions Transcripts, Mona School of Business and Management, UWI

Risks related to finances. When asked about their greatest fears related to their finances, respondents of the FGD were most likely to speak about having insufficient income to pay their bills, particularly those

⁵⁹ Security guard wages is a common benchmark in Jamaica. For 2014, security guard wages increased to 8,199 JMD and the other minimum wages to 5,600 JMD, but as the diagnostic was conducted in 2013 and other income values and labour force data from STATIN shown in the report are 2013, for consistency, 2013 wages are used for comparison purposes.

associated with the care of their children. They feared being unable to earn any income and referred specifically to the loss of employment and an inability to work due to injury or sickness. Respondents also mentioned their concerns with placing their money in a bank including their fears of bank closure and losing their money to bank fees (See Table 8).

Table 8: Risks related to finances

Risk	Number of Recorded Responses	% of Total Respondents
Insufficient Income	31	21%
No Income	15	10%
Bank Issues	10	7%

Source: Focus Group Discussions Transcripts, Mona School of Business and Management, UWI

Risks related to job. Respondents, who were overwhelmingly blue collar workers, indicated they faced the risk of accidental injury or death on the job (See Table 9). They also contended with crime, specifying praedial larceny⁶⁰ and other forms of theft, as well as potential loss of employment. Farmers participating in the FGDs highlighted that flooding, hurricanes and high winds affect their crops and, by extension, their livelihood. This fear of income loss due to a weather event among workers in agriculture was also reported in the previously cited BMZ study. When asked to evaluate their own risk exposure, BMZ survey respondents had reported that they were most fearful of losing customers (33%) or their job (30%) due to adverse weather conditions. 29.2% had a high or very high demand for weather related insurance.

While responding to the facilitators’ questions about the financial impact of the loss of a job, some FGD respondents expanded the discussion to highlight their concerns about the risk of losing supplemental income they received from family overseas. One respondent asked: *“What if any one of my sisters or brothers in the States (who I can ... call for money at any time and get it) lost their jobs?”*

Table 9: Risks related to job

Risk	Number of Recorded Responses	% of Total Respondents
Accidental Death or Injury	27	18%
Crime	13	9%
Loss of Job	10	7%

Source: Focus Group Discussions Transcripts, Mona School of Business and Management, UWI

Risks related to family and self. As shown in Table 10, the main risks reported in this category are personal or family member’s accidental injury and/or sickness. Respondents discussed their many, wide ranging fears for their children, including their safety, education and wellbeing, especially in the event of the respondent’s own death. The death of a family member was also mentioned as a point of concern. A respondent in Hanover explains: *“You can get back (replace) jobs and house but you cannot get back (replace) your family if any of them dies.”*

Based on information learned during stakeholder interviews, we gathered that, in addition to the emotional component, the death of a family member is a financial hardship (even if the deceased is not a bread winner) due to the cost of the funeral, which are culturally expensive and extravagant.

⁶⁰ Theft of growing crops.

Table 10: Risks related to family and self

Risk	Number of Recorded Responses	% of Total Respondents
Sickness		
- Self	13	9%
- Relative	14	9%
Accident		
- Self	8	5%
- Relative	9	6%
Death		
- Self	5	3%
- Relative	4	4%

Source: Focus Group Discussions Transcripts, Mona School of Business and Management, UWI

Risks related to home. The most significant risk related to home that was highlighted by respondents varied by location. In St. James, St Catherine and St. Andrew (where Jamaica’s largest urban areas are located), the consensus was reached that crime was the most significant risk; in Portland (the parish with the highest average rainfall in the island), the consensus was that the main risk was flooding. Across all parishes combined, crime, fire and weather-related risks were the main areas of concern reported from the FGDs (see Table 11).

“If I lose my home it would be the worst thing ever, it would be like the things you see on the news”~ Kingston FGD

This is in line with the concerns about crime and weather events that were raised during the stakeholder interviews. Interviewed persons were opposed to products which have hurricane, wind related damage or rain damage exclusions as flooding, hurricanes and high winds affecting property and crops are risks that cause great financial concern for Jamaicans.

Table 11: Risks related to home

Risk	Number of Recorded Responses	% of Total Respondents
Crime	22	15%
Fire	14	9%
Weather	6	4%

Source: Focus Group Discussions Transcripts, Mona School of Business and Management, UWI

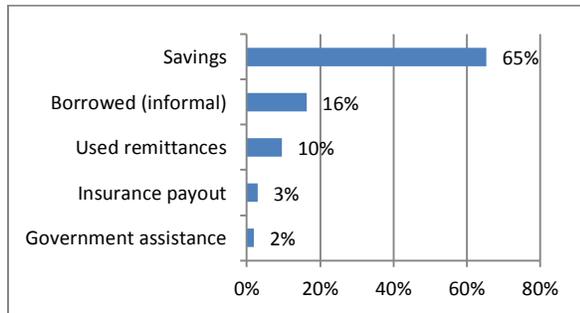
3.3 Risk coping mechanisms

The most common risk coping mechanisms are relying on family in Jamaica or living abroad, followed by savings of any form, then increasing income through odd jobs or trades and then insurance. FGD participants were asked which coping mechanisms they would use (or had used in the past) to mitigate against seven potential loss events: loss of job, fire in house/business, death of dependent/spouse, inability to work due to sickness, inability to work due to injury, serious accident or illness in the family and weather events. The most frequently mentioned means of weathering a crisis that were listed by FGD participants were *help from family* (64 responses), *savings* (24 responses), *“hustling” or informal work* (17 responses), *insurance* (14 responses), friends (7 responses), neighbours (6 responses) and church (5 responses).

These responses differ from the results of a study funded by the BMZ that investigated the coping mechanisms used after the most recent weather loss event by 1059 low income Caribbean nationals (including 275 Jamaicans) employed in agriculture and tourism. As shown in Figure 7, the researchers

found that, of the Jamaicans surveyed, 65.4% used savings, 16.3% borrowed informally, 9.6% used remittances, 2.9% received an insurance pay-out and 1.9% received government assistance.

Figure 7: Risk coping mechanisms after most recent weather event



Source: Demand for Weather Related Insurance & Risk Management Approaches in the Caribbean, Federal Ministry for Economic Cooperation and Development.

It can be seen from the above figure that, among the surveyed persons in the BMZ study, reliance on personal savings was significantly higher than indicated by the FGD responses; reliance on assistance from others (including borrowing and remittances) was far less than indicated by the FGD responses. It should be noted that the FGD respondents typically listed coping mechanisms that they **expect** to use, whereas the BMZ study listed coping mechanisms that were **actually** used. The differences could be explained by the lack of availability of these expected coping strategies after a significant loss event. For example, family assistance may be unavailable if multiple family members are affected by the same loss event; additionally, although hustling was considered an important means of getting by, the individual may be unable to do or find work.

Help from family. When asked how he would handle a catastrophic financial event, an FGD participant from Clarendon succinctly explained: *“I would go home to mama”*. The most commonly reported emergency plan was to rely on family, including family living and working overseas who may send financial assistance via remittances. However, some respondents acknowledged that members of their family were experiencing economic hardship also.

Savings. Twenty four (24) recorded responses explicitly listed savings as a means of surviving periods of financial adversity. A respondent from Manchester noted: *“My mother and father from I was young taught me the importance of saving for a rainy day and not to depend on hand outs”*

The relative popularity of savings as a coping tool supports somewhat the findings of the INFE’s 2012 Financial Literacy survey, which found that 63% of respondents have a positive attitude towards planning for the future and 80% were actively saving or investing in the prior year. It should be noted that savings, in this case, are not limited to formal accounts at a bank or credit union, but include participation in partners and other informal savings schemes, as well as saving money in furniture and bedding.

However, the study also finds that only 46% of respondents displayed an understanding of the time value of money, 52% could perform a calculation involving compound interest and 14% could do both. This fits well with the high rates of participation in “partner” schemes (described in the box below) and

hiding money under the mattress, which both earn 0% interest in nominal terms and negative rates of interest in real terms. The study also shows that there is low financial literacy in Jamaica specifically in terms of budgeting, paying bills on time and avoiding the use of credit to make ends meet.

Box 5: Informal partner savings scheme

Box 5: Informal Partner Savings Scheme

Jamaicans save informally in a system called “Partners” which is a forced savings where a group of friends or co-workers put in a set amount according to a defined schedule; daily, weekly, bi-monthly or monthly and at each set time period a different person gets the entire amount. The informal Partner model that is rampantly used as an informal savings mechanism across Jamaica has been formalised by certain credit unions, precisely in order to take advantage of the cultural importance that these informal savings clubs have in the country. If partners were to be used, the Banker would have to be sophisticated and registered as an agent and be tied to a formal system in some way. PC Bank currently offers a formalized partner savings plan that has received an excellent reception from its members.

Informal work. Seventeen (17) recorded responses referred to increasing income through odd jobs and trades, possibly in the informal sector. This included a respondent from Portland who stated: “*I would have to find some way out if it’s even to walk and beg*”. Respondents acknowledge that this coping mechanism would be effective only if they are capable of some form of work and, as highlighted previously, express great fear of illness or injury leaving them unable to do so.

Insurance. Insurance was identified as a coping mechanism in fourteen (14) of the recorded responses. Respondents made specific reference to their reliance on insurance to protect against financial losses due to fire, injury, sickness and death of a relative (often, a parent). Although insurance was named by less than 10% of FGD participants, it was more frequently mentioned than reliance on assistance from friends or from the wider community; insurance was also described as being more accessible than a bank loan or other form of credit. Respondent from Clarendon: “*I am insured ... so I believe I would be okay because I would get some money*”

No risk coping mechanism. Like the respondent from the FG in Trelawny who stated “*It’s not something I want to happen so I don’t bother think about it*”, the majority of respondents had no risk coping strategy in mind. This corresponds with the results from the BMZ study into coping mechanisms used by low income agriculture and tourism workers, a subset of the microinsurance target market, after a natural disaster. The study states that, in Jamaica, 48% of persons interviewed did not repair or replace their damaged property and 52% used coping tools that mostly included waiting strategies. The researchers in the BMZ study opine that both statistics suggest an implicit demand for microinsurance among low income persons employed in the researched groups. The BMZ study points out that: “*This inclination to not repair/replace etc., which should be considered high level stressors, have longer terms impacts such as: loss of productive capacity, loss of income sources, further depletion of assets, loss of access to finance, untreated health problems and social isolation.*” The BMZ study concludes that the high proportion of persons who do nothing after a weather event provides evidence of a need for insurance as a low stress coping strategy (BMZ, GIZ 2012).

3.4 Awareness and perceptions of insurance and of insurance companies

In the FGD’s, 38% of those that responded, had an insurance policy. When asked if they have insurance, 57 respondents (38% of the total) answered “yes” and 80 respondents (54%) answered “no”. When asked about the type of insurance they had purchased 27 respondents mentioned life insurance,

13 mentioned health insurance and 13 mentioned motor insurance. Most respondents paid for insurance through salary deductions (61%) versus over the counter (31%) and a standing order (8%). 85% indicated they had policy documents and understood what it said. Overall, urban FGD participants were more knowledgeable and exposed to insurance than participants from rural areas.

Respondents were usually introduced to insurance at home or at work. Respondents in the urban areas were more likely to have employer-provided insurance or to have been encouraged to buy their own insurance by sales representatives who visited them at the workplace. Both rural and urban respondents indicated they purchased insurance as they had grown up seeing their parents purchase insurance, had been encouraged to buy insurance by family members or recognized their need for insurance after a change in family status.

Many respondents have a positive view of insurance. Respondents generally had positive feedback regarding insurance, based on their own experience and/or the experiences of persons known to them. Typically, respondents were glad they had insurance and would recommend it to their friends and family.

Respondents are interested in insurance. Most people who did not yet have insurance were interested in purchasing insurance, subject to affordability. Their interest in life and health products corresponds with information gathered during interviews which suggests that Life insurance is the product people know the most; Health insurance (or health card) is requested the most.

Not all the feedback was positive. However, rural FGD participants were more likely to have a negative view of insurance than their urban counterparts. Insurance is seen as a luxury and that it is too expensive for the poor. We have also heard in interviews with an MFI that people are aware about insurance but they cannot afford it and do not see its tangibility. Most importantly though, there is no offer available for their clients. Facilitators reported that some Kingston participants were aware of illegal insurance scams, in which persons pretend to sell insurance but keep the premiums for themselves. Not understanding insurance terms (such as lapse after non-payment of premium) led to at least one respondent considering formal insurance a scam as well.

Respondents have a bad opinion of some practices in the insurance industry. Issues were raised regarding the length of time to settle claims (particularly for motor insurance) and the low benefits received compared to the premiums paid in the event of a claim (homeowner's insurance). An FGD participant from St Ann remarks that insurance companies are *"very time consuming whenever they are to compensate for damages. They have too much process to follow before they compensate persons for damages."* In addition, there was some dissatisfaction resulting from confusion about the benefits offered by a given insurance policy. Grievances recorded at the FGDs include a misunderstanding about

"If I could drive my vehicle without insurance then trust me I would be doing that, because that money I pay for the year could bring the children a far way in their education. So it is only because of the law why I have insurance."
~ Portland FGD

the coverage provided by a third party motor policy versus a comprehensive motor policy and a complaint about the effect of the average clause on a homeowner policy claim payment.

Motor vehicle insurance policy holders are often unwilling customers. Industry interviews indicate that an estimated 25% of vehicle owners do not purchase motor vehicle

insurance⁶¹, although it is required by law. The persons who purchase the required motor vehicle insurance often do not value the coverage and resent having to pay for it. A respondent in St James explains: *“The only insurance I have (a) problem with is car insurance. If you (are) in one accident your premium and the other person’s premium will go up even if you are not at fault. Also, it takes forever like they want you to forget about it.”*

Practices in both the public and private sector affect insurance perception. Based on information gathered during interviews, it seems that the perception of insurance is lowered because of the bad reputation and experience of government health care and slow claims payouts on motor vehicle claims. In addition, some insured persons did not receive an individual certificate for their group insurance policy.

There is distrust on all sides. Insurance companies and the regulator have experienced fraudulent activity among insurance consumers. Recently, there has been an increase in insurance fraud (including cases of whiplash, saying persons were in a vehicle at the time of an accident when they were not, false registration documents, incorrect vehicle model year). At the same time, there is a general perception among consumers that insurance companies do not pay. An FGD participant from St James shared the following: *“...I have a claim at my insurance company where they want to settle it 50/50. I said “no I am not settling for 50/50...it is stated in the police report that the other party is wrong...” All I know it is not settled and this was from 2009.”*

Respondents are not aware of all the complaint mechanisms available to them. The insurance company itself was the most popular recourse for any issues with the insurance policy (19 responses), followed by a lawyer (7 responses) and the police (3 responses). Two respondents mentioned seeking help from the CAC; two considered the radio as the best medium for redress. One respondent mentioned the FSC. When the question was expanded to include a range of financial services (not just insurance), respondents mentioned addressing their complaints to the company (26 responses), the Office of Utilities Regulation (OUR) (10 responses), CAC (6 responses). In all cases, the majority of respondents did not have a clear idea of the avenues available for addressing their concerns.

Respondents trust the credit union. FGD respondents were willing to purchase insurance from a large insurance company (which they felt was least likely to fail) or from their credit union (which they felt was most trustworthy).

Respondents are able to afford an average of US\$20 (JMD 2,000) per month for insurance. The respondents indicated the amount they were able to afford for insurance and, after removing the maximum and minimum values, the average affordable premiums as reported by the FGD participants was JMD 2,200 per month. The premium deemed affordable most often was JMD 2,000 per month. This is less than, but comparable to the amount (US\$30/JMD 3,000 per month) proposed in a discussion with micro-entrepreneurs at an MFI⁶² and the amount (US\$35/JMD 3,500) with auto business excluded) reported by the FGD participants who provided information on their current insurance premiums. Typical FGD respondents did not report paying auto insurance but, if this minority is included, participants are paying an average of US\$71/JMD 7,100.

⁶¹ No factual evidence was given to support this value, however, estimates across the industry were consistent.

⁶² Discussed later in Factors that impact the demand of insurance products

Respondents are concerned about the size of pay-outs and policy value. Some respondents give the opinion that insurance was for “rich people” and were concerned that they would not be able to consistently pay premiums. Respondents felt that if they paid premiums and never submitted a claim, they had wasted their money and perceived that the insurance was therefore of little value; instead, they were interested in seeing a benefit such as an endowment component. A participant in Trelawny states: *“It’s not worth it for you to be working your money pay, pay, pay and not getting back anything”*.

With respect to auto insurance, the value of the (personal and third party) property damage and liability benefits is not clear. The Portland FGD participant, (quoted in the above enclosed box in section 3.4), clearly sees the value of education for his/her children but does not see the value of the auto insurance. He would like to prioritize his expenditure according to his perceived value but feels he is prevented from doing so by the law.

3.5 Factors that impact the demand of insurance products

Many members of the target market are relatively knowledgeable about insurance and mindful of value for money. During the group discussion with 5 micro business persons at an MFI, participants indicated they want affordable insurance products with benefits that are good value for money. Their priority products provide health, life, fire and robbery coverage; in addition, they are interested in compulsory savings. The maximum amount they would be willing to pay would vary based on the benefits provided but they could afford JMD 3,000 (US\$300) per month or more. The participants stated that some insurance companies had a bad reputation for taking too long to pay claims, however they trusted some financial institutions. Based on feedback from interviews with the MFI hosting the discussion, the most significant risks for micro-entrepreneurs from the point of view of the MFI include: death, disaster, health and sickness related to work indicating the risks, but different priorities. On the first claim they discovered meeting claims requirements could be difficult as it required a birth certificate of the deceased which the family could not find.

Affordability and tangibility of insurance are two of the main obstacles to purchasing a policy. There is disposable income but it is not used for risk management. Members of the target market have disposable income that is not being spent on insurance as a risk management tool, but is being spent instead on other items that are considered to be higher priority. In order to increase expenditure on insurance, it is necessary to ensure that consumers see that it has value.

For some Jamaicans and given the economic situation, the reality is that paying the bills is more of a priority than saving for the future or spending for risk mitigation. However, the lack of insurance makes them more vulnerable, so that if they experience a significant loss event, they may be forced to sell assets, deplete savings and/or forego consumption (including paying for education and health care).

Greater financial literacy is especially important for members of the target market, who are more vulnerable to financial shocks. Although it was not clear what proportion of the participants in the OECD study come from the micro insurance target market, the researchers report that their analysis shows that lower income is associated with lower average financial literacy scores and state that “it is also worth noting that the poorest consumers have less flexibility to ‘learn by doing’, as they cannot afford to make mistakes.” The study also reveals that in Jamaica, in contrast with most other countries, there is no gender difference in any of the three financial literacy components considered in the study

(namely financial knowledge, financial behaviour and financial attitude) considered. The issue of financial literacy also was evident when the FGD respondents communicated their dislike of reading policy details and filling out forms. The radio appears to be a preferred means for educating on insurance among the target market.

Some Jamaicans do not have the documentation required to purchase insurance. In fact, in general discussions at some interviews it was indicated that there is a segment of the population that prefers to stay informal and not have ID in order to avoid paying taxes. Current insurance registration requirements could be complicated for the target market to obtain: such as Tax Registration Number (TRN) and birth certificates (which are needed to complete some death claims).

4 Supply

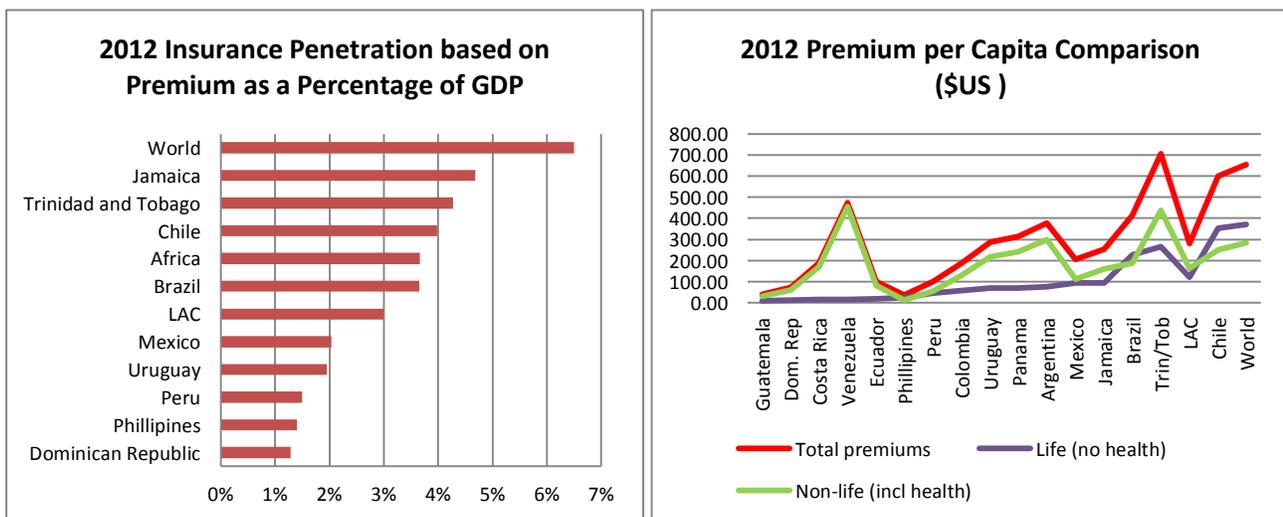
To establish a broad-based understanding of the insurance environment, this section will delve into the context surrounding the insurance sector and details of the insurance industry, risk providers and distribution. Current microinsurance product offers and quantification of the microinsurance landscape is then put forth.

4.1 Insurance sector context

The Jamaican insurance industry is an established part of the economy that has maintained growth despite a difficult economic environment. It presents the highest insurance penetration in the LAC region. Between 2010 and 2012, the total insurance industry's gross premium growth of 6-14%⁶³ exceeded the country's GDP growth⁶⁴ thus increasing insurance penetration. As seen in Figure 8, in 2012, the insurance penetration of 4.7% is the highest in Latin America and The Caribbean (LAC) region⁶⁵. Jamaicans spend more per capita on life than most individual LAC countries⁶⁶, but less on nonlife (which includes health). In total, compared to other countries, Jamaica's insurance premiums per capita are slightly smaller than the LAC regional average⁶⁷ (Figure 9).

Figure 8: Global insurance penetration comparisons (2012)

Figure 9: Global premium per capita comparisons (2012)



⁶³ (Timetric 2012) The Timetric report has data up to 2011 and used the 2011 exchange rate for all historical data, Financial Services Commission data was used for 2012 and this was converted to US\$ using an exchange rate of 89 – growth values are after US conversions. A spike in annuities growth in 2011, an increase in health premiums in 2012 and repricing of general products all contribute to the industry growth rate. Industry growth decreases by 1-2% if inflation is removed to be more congruous with the GDP growth; however the overall growth rates still remain higher than GDP growth.

⁶⁴ As seen in Figure 2 of the Context section

⁶⁵ Insurance penetration is defined as gross premium divided by GDP. Graph source: (Thomas Seiler 2013)

⁶⁶ High life insurance premiums per capita are most likely due to the dominance of Universal Life in Jamaica's life sector.

⁶⁷ (Thomas Seiler 2013). Exchange rate used for 2012 in this report is 88.5

Putting this in perspective, even with the highest penetration in LAC, microinsurance is needed as mandatory motor vehicle coverage and commercial property insurance account for a large portion of premium collected along with investment premiums attached to Universal Life coverages. Therefore coverage is needed for individuals in the low income segment to cover risk events with a high financial cost such as death and personal property damage.

The Caribbean Community and Common Market (CARICOM) may simplify operating across the region.

The CARICOM Single Market and Economy (CSME)⁶⁸ was developed to support the free movement of goods, services, skills, capital and the right to establishment⁶⁹. Interviews revealed that companies do not work in many other Caribbean countries because it is expensive to meet regulatory requirements in all the countries. This eases the expansion into other Caribbean markets creating an opportunity to reach more clients which can eventually assist in accessing a critical mass for sustainability. One out of country organization chose to work with a Jamaican insurance company that had ownership in an insurer in another Caribbean island because this affiliation gave them the ability to expand regionally across the Caribbean. Currently, already a number of companies are part of a conglomerate or group, so their head offices are not in Jamaica. For example, Guardian's head office is in Trinidad, Sagicor's is in Barbados and Scotia has its head office in Canada with branches throughout the Caribbean. Others are expanding in the region with branches or subsidiaries.

4.1.1 Insurance companies and industry bodies

4.1.1.1 Insurance companies

As at January 2014, there were nine⁷⁰ nonlife (offering general insurance products) and six life⁷¹ insurance companies (carrying out long-term insurance business). There are three insurance companies offering products that reach the target market with one company designing products specifically for the lower income population. Two life companies, Sagicor and Guardian, dominate the insurance landscape. They are the only companies that offer health insurance and account for 45% of the total industry gross written premium (86% of the 2012 life gross written premium). Premiums are more evenly distributed in the nonlife sector with Advantage General writing 16% of the 2012 total general premium, closely followed by Jamaica International Insurance Company (JIIC) and General Accident at 13% of the total general gross premium written. The current Insurance Act does not allow bancassurance. However two companies offer bancassurance as they were grandfathered prior to the current Insurance Act⁷². Table 12 illustrates the distribution of gross written premium by company and segment. JIIC, Cuna and Sagicor offer products that reach the microinsurance target market while JIIC is the only company that has designed products specifically for the market.

⁶⁸ One of the main objectives of the CARICOM Financial Services Agreement is to streamline and facilitate the cross border operations of financial institutions and create the environment for enhancing competitiveness of the single market in financial services. (Caribbean Community Secretariat CSME Unit, n.d.)

⁶⁹ (CSME 2014)

⁷⁰ A tenth non-life company was not in operation

⁷¹ In Jamaica, health products (for the most part) are offered by life companies. Short term health products related to accidents can be offered by general companies.

⁷² The insurance and banking operations are kept separate so the client knows that a separate insurance entity is offering the policy and not the bank

Table 12: Gross written premium by company and sector

Segment	Company	2012 Gross Premium (millions JMD)	Percent of industry Gross Premium	Percent of Life Gross Premium	Percent of General Gross Premium
Life	Sagicor	19,530	31%	59%	
Life	Guardian	8,883	14%	27%	
General	Advantage General (AGI)	4,794	8%		16%
General	Jamaica International Insurance Company (JIIC)	3,989	6%		13%
General	General Accident (GA)	3,789	6%		13%
General	West Indies Alliance (WIA)	3,310	5%		11%
General	British Caribbean Insurance Company (BCIC)	3,239	5%		11%
General	NEM Insurance Company (now JN General)	2,968	5%		10%
General	Insurance Company of the West Indies (ICWI)	2,863	5%		10%
General	Globe Insurance Company of Jamaica Limited (now West Indies Alliance)	2,347	4%		8%
Life/Bancassurance	Scotia Life Insurance Company	1,733	3%	5%	
Life/Bancassurance	NCB Insurance Company	1,656	3%		
General	America Home Assurance company (AHA) (now AIG Jamaica)	1,798	3%	5%	6%
Life	Cuna Mutual Group (CMFG Life insurance Company)	1,337	2%	4%	
General	Key Insurance Company	711	1%		2%
Life	Jamaica National Life (JN Life)	-	0%	0%	
	Total		100%	100%	100%
	Total Gross Written Premiums (GWP)	62,947		33,139	29,808
	Percentage of Total Premium	100%		52.6%	47.4%

Source: (Insurance Association of Jamaica Insurance Yearbook 2012)

Mergers and acquisitions have reduced the number of insurance companies in recent years limiting competition in the life sector. In recent years, mergers and acquisitions have occurred, but industry interviews indicate that there is still room for more amalgamations. Over the last ten years, the number of life insurance companies has reduced substantially due to the financial crisis. Currently, out of the six life companies only two are full service companies offering health and life products. Both of these companies have different corporate approaches and only one of them aims to target the microinsurance market in a consistent manner. Having two life/health insurance providers entails competition concerns as the diversity in the offer of insurance products to the microinsurance target market may be limited.

Therefore, FSC indicated in interviews that they think competition should be encouraged especially in the life sector.

The industry recognizes that the current economy provides a challenging environment for insurance operations; however, companies also recognize that Jamaica has faced a difficult economic environment over the last 20 years, so their management practices have had to adapt. To survive the challenging economic environment, management strategies have changed. Establishing value is seen as an essential piece for expanding the market. To do this, a few companies have designed offers where products might be sold in parts, so the client receives small covers at affordable prices. Due to the economy, prices for goods and services are high and unstable which impacts the purchasing power of an insurance benefit⁷³. Managing the product mix so there's a combination of products with a set benefit pay-out, such as liability or life insurance, and products whose benefit is dependent on the purchase of a specified item and therefore may be subject to price volatility (replacement costs or prescription drugs) has been a successful method used by some companies to reduce their vulnerability to rising costs. An interview with a provider indicated that it has in fact limited near term growth in its property portfolio as this product currently doesn't make economic sense for their company. Corporate strategies have also changed from a bottom line focus where product profits were created from high investment income when interest rates were high to focussing on underwriting profits and therefore re-pricing products (especially in the general sector). Life products are longer term, so they typically cannot be re-priced as easily, so life companies are monitoring product performance more closely using mechanisms such as detailed profitability studies and better management of interest and margins.

Underwriting profits are occurring, however, the industry as a whole is experiencing an overall combined ratio⁷⁴ of 115% and the industry expense ratio is high at 46%. It is said that high commissions from the local brokers and agents are driving the high industry expense ratios as discussed later in the distribution section. Nonlife claims ratios have decreased from 78% in 2009 to 57% in 2012 mostly due to repricing and no major weather events in 2012. Along with the high combined ratio, the industry's net income ratio⁷⁵ is also high at 31% indicating that investment income is a major source of profit for the industry. The industry investment ratio decreased from 33% in 2009 to 9% in 2012⁷⁶. These decreases have caused the industry to rethink its profit strategies and look at underwriting profits and re-pricing rather than relying on investment income in an uncertain economic environment. Underwriting profits have improved due to more insurance being ceded to reinsurers resulting in larger reinsurance commissions. These reinsurance commissions more than offset the commissions paid to local agents and brokers and thus reduce the acquisition expenses and increase underwriting profits.⁷⁷ Table 13 illustrates the breakdown of the 2012 combined ratio by sector along with the 2012 net income

⁷³ Interviews indicate that benefit amounts for property insurance do not cover replacement costs as the cost of building materials has increased, also industry insiders have said that prescription drugs in Jamaica now cost more than in the US so drug claims are very high.

⁷⁴ Combined ratio = expense ratio + claims ratio; Expense ratio = (operating expenses + commission)/earned premium; Claims ratio = (all claims, maturity and benefit payments)/earned premium (Wipf and Garand, Performance Indicators for Micro Insurance: A Handbook for Micro Insurance Practitioners (2nd Edition) 2010)

⁷⁵ Net income ratio = net income before tax / Net earned premium.

⁷⁶ These were calculated from life and non-life investment ratios supplied by FSC.

⁷⁷ ((FSC) n.d.)

ratios⁷⁸. The expense, loss, net income and investment ratios and trends, along with investment income are discussed further in Annex 3, Section 1.

Table 13: 2012 Key Performance Indicators

Sector	2012 Expense Ratio	2012 Loss Ratio	2012 Combined Ratio	2012 Net income Ratio
Life	47%	74%	121%	25%
Nonlife	46%	57%	102%	34%
Total Industry	46%	69%	115%	31%

Industry data as per the FSC annual reports and website only provides limited information to calculate standard performance indicators. The annual reports show claims ratios only for the general companies and the annual report did not provide the detailed data required to calculate other indicators for life and nonlife so the IAJ had to be relied upon. However, there were instances where information between IAJ and FSC did not reconcile. Most numbers in the reports are net of reinsurance; therefore informative analysis based on gross values could not be calculated⁷⁹. There also is a lack of standardization in the analysis required in the individual company annual reports as some do not contain analysis of the past year’s activities or strategic direction.

Companies are taking different approaches in regards to the amount of risk they are retaining. Overall, general companies reinsured 51% of their gross premiums while life companies retain more risk and reinsured 2% in 2012. The distribution of the general landscape changes when looking at net insurance premiums. Advantage general has 31% of the net premiums in 2012, followed by JIIC at 16%, JN General (NEM) at 11% and BCIC at 10%. See Annex 3, Section 2 for the distribution of gross and net premiums by company.

The local conglomerates already have the infrastructure in place to reach the target market including remittances from the Jamaican Diaspora. Some conglomerates (Jamaica National (JN), Grace Kennedy, Victoria Mutual etc.) have all the elements (bank, insurance, building society, remittance companies etc.) to expand into the microinsurance market. Some of these organizations already have direct access and established trust with the target population. Creating effective partnerships within the groups to facilitate microinsurance will assist the market to reach the market more expediently. When insurance companies are part of these groups they believe that providing good service and products to clients will benefit the whole conglomerate, and when they do not do so, they will end up affecting the reputation of the group. Thus, because of this, one company was very clear in their interview that extra care is taken to ensure product designs and services reflect positively on the conglomerate.

Several insurance companies see microinsurance as a tool to target the unserved and underserved population as Corporate Social Responsibility (CSR) and also as a financial opportunity as the market is untapped. The general belief is that providing good service and products to clients will benefit the perception of the organization and microinsurance can be a tool to create loyalty. In the long run,

⁷⁸ The ratios were calculated based on net values as all gross values were not available so the impact of reinsurance cannot be measured.

⁷⁹ To calculate ratios based on gross values we would require (i) General sector: gross claims and gross earned premiums for and (ii) Life sector: gross earned premiums, gross claims, gross benefits and the gross change in actuarial reserves

through this exposure to insurance, consumers get to appreciate the value of insurance and if their experience is positive then the door is opened to more consumers or more products per person. This encourages growth as the amount of insurance per customer would increase. Some insurance companies seem interested in microinsurance while others seem reluctant or have no immediate plans to enter this market.

Partnerships with global insurance companies are helping guide Jamaica's microinsurance market. Currently two out of the three insurance companies that are offering microinsurance products are using strategies gained through knowledge from their international affiliations. CFMG Life Insurance Company is part of Cuna Mutual, an international insurance company for cooperatives and credit unions servicing the middle to lower income populations. CFMG is one of the smaller life insurance companies in Jamaica, however, they have been offering microinsurance products since 1950 and their knowledge and direct access to the target market makes them one of the key microinsurance players. JIIC has benefited from a partnership with Hollard, a South African insurance company that closely guides them through all of their microinsurance decisions. JIIC is the newest entrant to the microinsurance market with a product launch in 2012 and two products introduced to the market in October 2013. One of JIIC's strategies is to make insurance affordable by offering separate insurance for specific items such as cell phones, laptops etc.

4.1.1.2 Industry bodies

The IAJ strategic plan is to expand the market to be more inclusive of the lower income population, however, the instability of the economic environment hinders on market expansion, not only in terms of lack of disposable funds, but also in the strategic direction some risk carriers are taking. The IAJ's future direction is to open up the insurance market to those that are currently underserved. Not all organizations are following this direction, as based on the IMF initiatives and the current economic environment, some organizations do not feel that the target market has the income available to buy insurance and therefore are not interested in entering the microinsurance market.

All insurance companies are part of the IAJ, which supports the potential for a self-regulation in the industry. The main objective of the IAJ is to provide support services to the insurance industry, notably by providing a platform for dialogue, promoting sound industry practices and the good conduct of the members to ensure consumer protection and to facilitate lobbying. IAJ plays as well a training role through the "College of Insurance and Professional Studies" which is a non-profit educational institution and "the official educational arm" of IAJ. It is also noteworthy that IAJ is involved in the provision of consumer education, through podcasts, videos and brochures available in their website⁸⁰ and through their CSR strategy it has been involved in programs with public schools and hospitals. IAJ is also a valuable resource for insurance industry data and analysis.

The Jamaica Association of Insurance and Financial Advisors (JAIFA) is another association whose various roles could leverage the development of the microinsurance market in Jamaica. JAIFA was established in 1932, with the purpose of representing the "sales force of the life insurance industry". We were not able to obtain data in regards to number of agents and brokers that were members, however, JAIFA's primary functions are to administer professional education courses, promote the adoption of

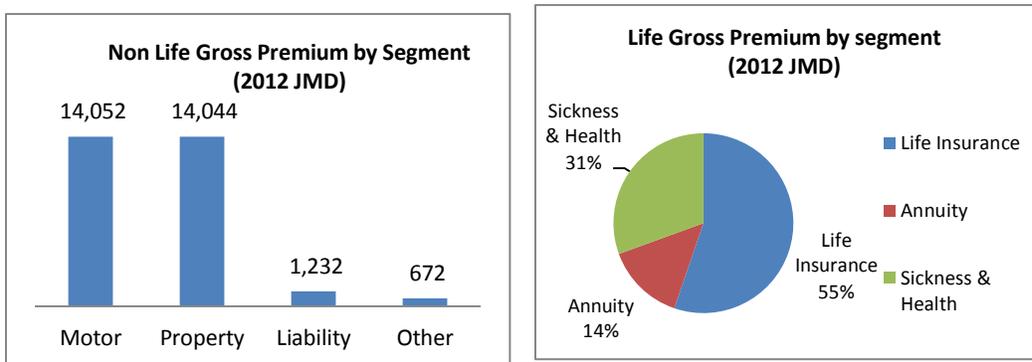
⁸⁰ (Insurance Association of Jamaica n.d.)

high standards of ethical conduct in the profession and provide the linkage with the life insurance industry, global life underwriters associations and the government⁸¹.

4.1.2 Products

The life segment covers long-term life, annuities and health products and had 52% of the industry's total gross premium in 2012 with universal life sales accounting for 89% of the *new* sales premium in the life market for both 2011 and 2012⁸². Life insurance products are the industry's largest product sector with 17.4 million JMD in gross premium comprising 55% of the life segment's premiums (Figure 10). Universal life is the most popular life product. Funeral policies sell well as they are affordable, easy to understand and have simple requirements. Current funeral insurance penetration is approximately 10% of the market. On the life side, 31% of total life premium is attributed to accident and health while universal life had 89% of the new life sales premium in 2012. Credit Life products are prevalent (and mandatory at a few institutions if loans are higher than a threshold amount) however no data was available to quantify the industry in-force amounts.

Figure 10: Life and nonlife segment distribution



Source: FSC

Source: FSC

Motor vehicle insurance is mandatory in Jamaica and comprises 23% of total industry sales; however, industry interviews estimated that approximately 25% of the vehicles are uninsured. Motor vehicle insurance has been mandatory since 1974 when the compulsory third party act came into effect; however some people prefer to take the risk of not having insurance. To confront the problem of an estimated 25% of the motor vehicles being uninsured a common database is being established for the tax office, police and insurance industry to use so the occurrence of fake certificates will be reduced. In 2012, motor vehicle insurance and property coverage each comprised 47% of the general premium. Figure 10 indicates the written premium for the general segment's products. Short-term health products associated with accidents are included in nonlife; two companies offer agricultural insurance, and are included under "other". An interesting change in product mix is the property insurance sector which has experienced a decrease in sales over the past 25 years. This is described in Box 6.

⁸¹ (J.A.I.F.A. n.d.)

⁸² This estimate also includes interest sensitive and equity linked UL products. If UL investment premiums are excluded from the analysis (in 2012, UL investment premiums were 67% of the total new life sales premiums) and therefore only UL risk premiums are used, Universal Life new sales were 66% of 2011 and 70% of 2012 new life sales premiums instead of 89%, still indicating a strong product presence in the sector.

Box 6: The impact of catastrophes on property insurance

Box 6: The Impact of Catastrophes on Property Insurance

Jamaica is in a double catastrophe zone for hurricanes and earthquakes and the number of hurricanes over the past 25 years has increased insurance costs. The recovery from the hurricane in 1988 was quick as a lot of homeowners had insurance. However, since then, premiums have quadrupled and have not come back down. Also, with the economy in a tailspin and high inflation, FSC indicates that properties are now valued much higher than two decades ago, so insurance is seen as being unaffordable. It is a requirement of mortgage companies (building societies) to have property insurance in place, however, those without mortgages have no such requirement. In some views, if a Hurricane Gilbert came again, there would be a slow recovery as some of these homeowners may not be insured. According to FSC, what occurred is that many people did not buy insurance again because the deductible was higher than the cost of repairs, so many people invested in better home construction (hurricane ties, flat roofs) to withstand an event rather than pay the high price of insurance. So the people took matters into their own hands and have addressed the risk by improving physical structures. All mortgages including those with the National Housing Trust (NHT) carry life insurance as well as property insurance. However, once the mortgage is paid off, there is a need for voluntary property insurance that is not linked to credit.

The insurance industry, for the most part, has become stagnant in its product development and takes few steps to design products based on client needs. Industry and client interviews indicate that the market requires new products. With most companies, the feeling is that the key to growth is to sell more current products to current customers rather than reach new markets or develop new products. Other companies, (JIIC in particular), however, are focussing on those that do not have insurance and developing products that solve social needs by insuring items that have a relatively smaller financial impact if it is damaged (i.e.) a laptop, in hopes that an appreciation for insurance will develop and create more sales in the long term with other products that assist in risk events that have a larger financial impact. The industry typically takes a “wait and see” attitude in regards to new product ideas as one company will try something new and if it works, the other companies will replicate the idea. The emergence of microinsurance is experiencing this same pattern.

4.1.2.1 Specification of microinsurance products

In the current environment where no microinsurance regulations exist, FSC has been cooperating with companies exploring microinsurance. FSC has used a definition based on premium and thus recognizes that products from one company are microinsurance. The diagnostic is using a microinsurance definition based on products targeting the low income population as established in the introduction, so products that were not classified as microinsurance could be considered as such for the study’s purposes.

Three insurance companies are currently offering products which are considered as microinsurance for this diagnostic. JIIC, Cuna and Sagicor offer products that reach the lower income population. Out of the three companies that are offering microinsurance, based on the definition used for this diagnostic, one company has just recently designed products specifically for the market and the other two companies have been offering products that overlap into the target market, but as regulations did not exist, they were never formally considered as such. The key microinsurance initiatives in Jamaica are offered by:

- **JIIC** has specifically designed products for the target market and are the newest entrant to the microinsurance market with a product launch in 2012 (complementary to all loyal customers of a bill payment platform covering utility payments for two months if a person cannot work due to an accident) and two products introduced to the market in October 2013 (covering medical

expenses due to accident and a livelihood protection weather index based product). Being an index based product based on weather events, the pay-out may only partially cover the damage incurred (so the insured is responsible for the balance) or may pay a policyholder when no damage has occurred at all. It is also possible that damage occurs and no pay-out is warranted at all based on the indicators. Therefore it's important for the insured to follow preventative practices in order to manage and limit their risk exposure to these events.

- **CUNA/CFMG Insurance** has direct access to the target population through cooperatives and credit unions and has been offering products since 1950. They, by far have the largest share of the microinsurance target market through four products- life, credit life, savings with a life guarantee and a funeral product. These products are available for all of their members a large portion of which are the target market.
- **Sagicor** is one of the largest insurance companies in Jamaica and started offering products (life and health insurance) to the lower income population approximately 3 or 4 years ago by changing their sales strategy and marketing products in a more relatable way for the target market.

Box 7 describes these microinsurance products in further detail.

Box 7: Microinsurance initiatives in Jamaica

Box 7: Microinsurance Initiatives in Jamaica	
JIC:	<p>a) <u>Bill Protect</u> – Launched in April 2012, this is a utility payment protection plan which comes complementary if three utility bill payments are made at Bill Express, who is the policyholder. Bill Express will pay the client's light or water bill for two months if they suffer from a disability not associated with age or any pre-existing condition provided evidence of the disability is submitted. This product overlaps with the lower income population and based on Jamaica Public Service usage, the diagnostic team estimates that it reaches 240,000 clients in the microinsurance target market.</p> <p>b) <u>Livelihood Protection Policy</u> – Launched on October 1, 2013, the parametric insurance provides coverage for loss of income due to weather events. Distribution is through St. Thomas Cooperative Credit union and National People's Cooperative Bank. Premiums are 5,000 JMD for 50,000 JMD of coverage. Benefits are paid out on an increasing scale defined by four Trigger levels based on wind speed or rainfall amounts and not property damage.</p> <p>c) <u>GKAméd</u> - Launched on October 1, 2013 this policy provides for an accidental death benefit and reimbursement of medical expenses due to an accident. The group product is offered exclusively to customers of the Grace Kennedy Money Services network (Bill Express, Western Union and cambios) and migrant workers in the Jamaica Ministry of Labour migrant worker programme. Premiums are 4,500 JMD annually, 500 JMD per month or 300 JMD per fortnight. Benefits cover specified amounts for surgery, hospital, consultations and radiology along with a 100,000 JMD death benefit.</p>
<p>CUNA/CFMG Insurance: Four products reach the lower income market and out of all the policies sold by CUNA, approximately 800,000 representing 1,200,000 policies/certificates are estimated to be owned by those in the</p>	

microinsurance target market. The main products are;

- a) Loan Protection and Life Savings Insurance: This is a credit life insurance that pays the outstanding loan balance upon death or disability. Also upon death, the value of the deceased's savings account is matched up to the limit insured by the Credit Union. The loan protection coverage is for loans undertaken by members of a financial coop or agricultural/farming cooperative.
- b) Golden Harvest Savings Plan: This is a medium term targeted monthly savings plan with a life insurance guarantee. If death occurs prior to the pre-determined savings amount being met, a benefit would be paid to the beneficiary that would fill the gap to meet the guaranteed savings amount.
- c) The Family Indemnity Plan: Final expenses are paid for the client, spouse, parents, children (total of 6 lives) for 1 premium and a new member can be added if one of the covered persons dies. No medical is required, and there is no termination of insurance if the enrolment occurs before age 76.

Sagicor:

- Life Protector: Protector was used because in the chosen community crime is very high. The plan offers life insurance, accidental dismemberment and life insurance for dependent children. Four levels of benefits are available ranging from 250,000-1,000,000 with a minimum annual premium of 3000 JMD.
- Churchmate: This product is specifically for church members and all claims must be submitted through the church. Benefit packages include coverage for natural death, accident medical reimbursement and disability coverage. Premiums range from 1,400-2,900 JMD annually.
- Ministry of Labour – When a NIS pension is awarded, the pensioner automatically qualifies for coverage under the NI Gold plan which is a Life and Health insurance. It is estimated that 90% of the beneficiaries are from formal employers but generally come from vulnerable backgrounds so this product could be considered as microinsurance. MLSS reports that there are 90,000 beneficiaries in the NI Gold program.

Sales data and performance information was not provided for these products (or we were asked to keep such information confidential) so the specific results of these product offers is unknown to the project.

Microinsurance that has been offered in the past has had varying degrees of success. Some have faced challenges of lack of payment of premiums and high claims ratios while others experienced an enthusiastic response that has encouraged them to pursue the market more. Some companies have offered products to the target market, but found that irregular premium payments and high claims did not make the products worthwhile. Sagicor, however, ran a health product pilot offered to a pension group. Without any major sales push and only brochures, 50% of the pension group bought the product. The product only covered inpatient and cost 1000 JMD per month. No further data was available to measure the results of this pilot; however, Sagicor indicated that a 50% take up showed them that members would buy insurance without directly seeing a salesman.

Box 8 highlights other providers that have products that reach the target market through key intermediaries. However, we were not able to obtain more detailed information or performance ratios. In addition mandatory motor insurance is a channel for insurance that crosses into the target population.

Box 8: Other products reaching the target market

Box 8: Other products reaching the target market

Sagicor, Guardian and American through TIP Friendly Society: TIP offers various Group insurance plans to its teacher based

members. It is mandatory for its 19,000 members to purchase insurance coverage. Products are written by an insurance company and TIP is the policyholder. All plans have a savings and an insurance component.

- **Basic Plan:** Monthly premium of 1000 JMD per month, of which 60% is allocated to savings and 40% is allocated to insurance. As benefit amounts increase so does the premium and savings. This is a bundled product that offers benefits for death, accidental death and disability and medical expenses relating to accidents. A 100% return of premium is offered if no claims are made after 10 years. If claims are made, 75% of premiums are returned.
- **Family Protector and Protector Plus:** Group life coverage is provided to the member plus five family members in the event of death. The Plus plan has a savings component where 60% of premiums are allocated to savings. Benefits range from 100,000-200,000 JMD with monthly premiums of 500-2000 JMD.

BCIC through Courts Furniture Store: An item purchased on a Courts Option Credit Plan, is covered by a payment protection policy covering death, redundancy, hospitalization or loss of your item due to: fire, flood, storm, burglary or robbery. The policy is underwritten by BCIC and it is included as the market crosses into the lower income sector.

4.1.3 Other insurance schemes

The Insurance Act allows certain exceptions where non licensed insurance companies can offer certain insurance schemes. In the outreach of the schemes we found there is overlap with the lower income sector. We are aware of these exception regimes existing for catastrophe insurance, in the agricultural sector and insurance affiliated with student loans and trade credit insurance⁸³, however the latter two are just examples of exceptions and would not have an impact on microinsurance. There is little dialogue between the FSC and other supervisors and self-regulation associations.

In efforts to protect crops from catastrophes, the government has organized agricultural insurance schemes for bananas, coconuts and coffee, based on the Banana Insurance Act of 1946 (BIA) and the Coconut Insurance Act of 1946. No separate insurance act exists for coffee. Out of these agricultural insurance schemes, two are not operating. The approaches have proved to be unsustainable due to a variety of reasons, mainly weaknesses in their set-up and demand orientation. Coconut insurance has proven sustainable as it is funded by dividends from investment earnings⁸⁴ so no premium is required from the producers and no funding is provided by the government. Further details are in Annex 3, section 3. Overall, there is little risk management currently available in the agriculture sector, however, the Ministry of Agriculture and the Coffee Board (CB) are working to develop appropriate insurance initiatives. As the agricultural sector provides income to a large part of the target population the lack of risk management offers an opportunity for microinsurance initiatives.

Hurricane and earthquake coverage is available at the national level for assistance after a catastrophic weather event. Jamaica is a member of the Caribbean Catastrophe Risk Insurance Facility (CCRIF) which *“is the world’s first and, to date, only regional fund utilizing parametric insurance, giving Caribbean governments the unique opportunity to purchase earthquake and hurricane catastrophe coverage with*

⁸³ The Students’ Loan Bureau offers a self-insured student loan insurance which adds a type of credit life insurance to each loan to protect the student and the guarantors from liability in the event of a mental or physical incapacitation or death (Students’ Loan Bureau 2014). Trade credit insurance is offered by The National Export-Import Bank of Jamaica (EXIM Bank), the risk carrier. Insurance is for domestic and foreign receivables covering non-payment due to commercial risks and political risks (Exim Bank of Jamaica 2014).

⁸⁴ Funding comes from investment shares in Seprod Trading Company where The Coconut Industry Board used to own 100% of shares, but now are 31% shareholders .

lowest-possible pricing”⁸⁵. As described in Box 9, CCRIF has a new meso-level weather product to help lenders during catastrophic events when loan repayments may not be consistent.

Box 9: CCRIF meso weather product

Box 9: CCRIF Meso-Weather Product

Caribbean Catastrophe Risk Insurance Facility (CCRIF) has developed a product to offer to the lending institutions to help cover loans in weather events when clients are experiencing hardship and cannot make their regular payment. This is a mid-level product that would be targeting DBJ, PC Bank (indirectly as it is under the umbrella of DBJ), and potentially credit unions and MFI’s. The product will allow for more cost efficient risk management for the lenders so they are stronger and able to attract more funds and therefore be in a better position to help the lower income population. During our interviews with an MFI, it was indicated that they wanted a product like this so demand exists for this type of insurance. The product will be underwritten by CCRIF and has been approved by FSC to be directly sold by CCRIF. FSC can allow that non-admitted insurance companies can offer insurance products, only when equivalent protection is not provided by registered insurers and that was the case in this situation.

4.2 Distribution

4.2.1 Traditional insurance intermediaries

Only insurance professional intermediaries (agents, insurance brokers and sales representatives⁸⁶) can sell insurance. This presents a barrier for microinsurance as it limits access to the target market. As at March 2013, FSC reported that there were 25 brokers, 14 agents and 2,741 sales representatives in Jamaica. Some traditional intermediaries have been selling insurance as pointed out below.

In order to comply with regulations and offer insurance to their members, the cooperative sector has developed a distribution model that includes its own agency to sell general products (Box 10).

Box 10: The co-operative insurance distribution model

Box 10: The Cooperative Insurance Distribution Model

The Co-operative movement currently offers insurance to its clients through CUNA Mutual/CMFG and JCIA. CUNA Mutual provides life insurance to the credit union members while all general insurance for co-operatives and credit unions go through the co-operative insurance agency, Jamaica Co-operatives Insurance Agency Limited (JCIA). For CUNA, agents are used for some products while other insurance is compulsory and part of the product. For JCIA, through a secondment agreement, a JCIA representative is placed in each cooperative or credit union that wants to sell policies. The cooperative or credit union gets the members and passes them on to JCIA where the agency becomes the policy administrator. JCIA currently books 5,000 policies through four general insurance companies that cover motor (comprehensive and 3rd party), home and content and commercial. Life, health, agriculture and transport policies are not currently sold, however, JCIA is looking at expanding to selling life and health insurance.

Insurance brokers play an important role in insurance, and potentially microinsurance, as they have been involved in developing agricultural insurance distribution systems. Larger brokers probably would be innovative enough to venture into microinsurance as they have the resources for training and learning about the market and products. The association of brokers recognises the importance of the brokers’ role in the microinsurance value chain in Jamaica. Brokers have been involved in the design of insurance products offered to farmers, specifically for the coffee and banana insurance schemes that

⁸⁵ (CCRIF: Caribbean Catastrophe Risk Insurance Facility n.d.)

⁸⁶ Defined in section 5.3.2 Distribution and transactional platforms

were not very successful undertakings as reported earlier.

Most sales agents are now full time as high capital requirements in the Insurance Act has filtered out the part time agents and brokers. Regulations used to allow part time agents and brokers who could run smaller companion operations from retail shops. However the Insurance Act now has high capital requirements so that segment was lost and most sales agents are full time. The interviews revealed different commission schemes in the industry as seen in the below table.

Table 14: Examples of commission structures in traditional insurance

	Scheme 1	Scheme 2
Individual Life	30-40% on average with the lowest commission being 22% and the highest 60%.	100% of 1 st year's annual premium, 50% of 2 nd year's annual premium and 0% thereafter.
Nonlife		10-12.5% of premium
Health	Max of 10%, but brokers do negotiate lower than this.	
Personal accidents	25% in 1 st year with renewal commissions being much lower.	

4.2.2 Alternative distribution channels

Group insurance policies are used as a tool to distribute microinsurance products to clients, members or associates of these groups. In this perspective, the policyholders of these policies act as “alternative distribution channels”. In these cases, brokers or agents are generally used to sell insurance to the group or association. It is expected that group policyholders hand out certificates, however, interviews with policyholders revealed that for some group policies, individual certificates are not always given to the members to indicate the coverage and the conditions to use the product.

Interviews throughout the industry also indicated a widespread perception that it is common for a group policyholder to receive remuneration as an administration fee which is normally 10%; or, a processing fee as high as 25% which is embedded in interest rates that allow clients to pay monthly (as the organization has paid the annual premium upfront). It was also reported that premiums for an insurance product purchased through some intermediaries are different than when purchased through the provider directly. We did not find direct evidence of these fees or their disclosure to the consumer. This is reported to be a common practice in other countries even though adding additional fees are not allowed in the regulations.

Examples of group policyholders in Jamaica are:

- *Victoria Mutual Building Society (VMBS)* is a group policyholder for a mortgage insurance product underwritten by BCIC. VMBS is the policy manager and administrator as all claims go through them.
- *JiIC* uses Bill Express, a bill payment outlet, to enrol clients into two of its microinsurance products. Bill Express is the group policyholder and loyal customers who make continuous payments at the outlet can purchase the insurance.

- *Teachers Income Protector Friendly Society (TIP)* requires mandatory participation in a group insurance plan where TIP is the policyholder in order for its members to obtain a loan. A more detailed description is in Annex 3, Section 5.

Partnerships with government departments are emerging as another way to give insurance companies direct access to specific groups in the market Supply can be driven by other development agendas in agriculture, pensions, compulsory insurance and social initiatives as we will see in the public policy section. These groups crosscut with the microinsurance market. It is anticipated that by the end of 2014, mandatory life insurance will be a pre requisite for obtaining a fisher license. The JIIC GKAmEd (Accident/medical) product is specifically targeting members of the Ministry of Labour and Social Security migrant workers program while Sagicor also has a life and health product that they subsidize through Ministry of Labour. These initiatives offer opportunities to the insurance companies to create products for segments with client access already established. The private sector is aware of this opportunity as through our interviews we heard of at least three examples of the private sector approaching the government to instigate a partnership.

MFI's seek credit life insurance for their clients however finding a risk carrier is difficult. In interviews with MFI's, a common theme is that the target population has good insurance awareness, but they just need a capable provider that will provide an affordable product to the market. The organizations want and need credit life insurance but stress it is difficult to find a provider. We know of one MFI offering credit life underwritten by an insurer while other MFI's have looked at the cost of credit life proposed by the risk carriers and are considering self-insurance.

4.2.3 Transactional platforms

Bill payment companies and remittance outlets used to facilitate payments from the Jamaican Diaspora are very prominent in Jamaica. These transactional platforms are already reaching the target population so the potential to expand their services to microinsurance products is feasible. Bill payment platforms are commonly used to pay utility bills, cell phone bills and insurance premiums to name a few. Bills can be paid on line or in person at any one of the many store outlets. Paymaster, a multi bill payment service, has even expanded its services to include financial services (MFI's, credit unions), education payments, cable, cell phone top ups and even property taxes⁸⁷. Some of these bill payment companies are also part of local conglomerates that have money services operations that handle remittances. For example, Bill Express, a bill payment agency, is a partner with the remittance arm of Grace Kennedy, GK Money services which has an exclusive remittance service through Western Union, and JN (Jamaica National) Money Services and JN Bill pay are both part of the Jamaica National conglomerate. The Grace Kennedy conglomerate and the Jamaica National brand also have insurance companies as part of their family, creating natural partnerships for insurance premium payments. As we have mentioned, JIIC, which is part of the Grace Kennedy conglomerate, has used the GK partners by offering microinsurance products through Bill Express and Western Union.

Other transactional platforms: The Post Office is currently used to pay pensions by the NIS and as mentioned earlier regulations to permit non-banking agents are in progress meaning there is the potential for the NBA's to sell insurance so the opportunity to pay insurance premiums at these new outlets is a real possibility.

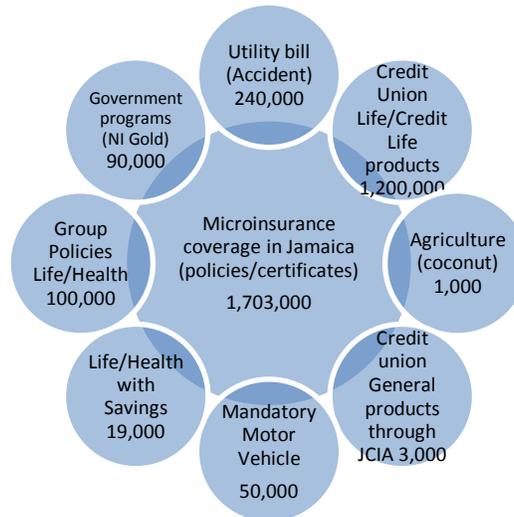
⁸⁷ (Paymaster n.d.)

Mobile money is not currently used as a transactional platform but it is feasible this will change with the new guidelines issued by the BOJ. Insurance companies are interested in using mobile money as a platform for insurance, but realistically given the newness of the technology to Jamaica, it is estimated this is still some 5 years away. Mobile money is described in the Policy section.

4.2.4 Take-up of microinsurance products

We estimate that currently there are 1.7 million policies or individual certificates owned by 1.3 million people in the defined microinsurance target population including the unserved and underserved as indicated in the introduction section⁸⁸. Figure 11 separates the estimate into product categories. Any one person could have multiple policies crossing different categories. This estimate does not include family members that may also be included in the policy coverage of life and health products.⁸⁹

Figure 11: Policies or certificates reaching the microinsurance market



As seen in Figure 11, credit unions are currently the most effective channel reaching the target market as they have 70% of the identified microinsurance coverages. The utility bill payment platform using Bill Express is the next strongest channel with 14% of the coverages, followed by group policies (6%) and government partnerships (5%). As noted earlier, the two strongest channels, credit unions and Bill Express are automatically including insurance with some products that are available to all of their clients, of which a large portion is the target market.

⁸⁸ PC Bank credit life (mandatory for large loans) is included with the Credit Union credit life policies. Building Society mortgage insurance is included in the group policy estimate. We know of one MFI offering credit life (required for large loans) and it has 500 policies and these are included in the group policy estimate. Commercial Banks offering credit life to the MI market would be minimal. It is estimated that 10% of all group products offered in Jamaica cross cut with the lower income population and this estimate was expanded to include the underserved population.

⁸⁹There is a margin of error in these approximations. Not all products are directly targeting the microinsurance target market; however, we have approximated how many lives in the product offers overlap with the lower income population.

5 Public Policy, Supervision and Regulation

In this section we will first consider how microinsurance is integrated into certain public policies in Jamaica; secondly, we will assess the supervisory approach for microinsurance products; and finally, we will describe the regulatory framework applicable to microinsurance and how it impacts on the microinsurance value chain.

5.1 Public Policy

Even though Jamaica has not adopted a specific policy or regulation to promote microinsurance, there are some policies in the country that may encourage (or hinder) indirectly the development of the microinsurance market. Amongst them, we identified certain policies that relate to: disaster risk management; mandatory insurance products; insurance products for certain segments of the population; cash transfer programs; the promotion of access to financial services; the promotion of MSME; the institutionalisation of productivity strategies; and increasing cohesion amongst the Jamaican Diaspora around the globe.

These policies can be summarised as follows:

Insurance schemes have always been considered as important tools for managing catastrophic risks for small farmers, and there is a growing interest from the government to ensure their sustainability and suitability. This trend is clear with the adoption of government initiatives that seek to increase agricultural productivity in the country. The main priorities of the Jamaican government are to reduce the cost of importing commodities, to ensure food self-sufficiency, to reduce the foreign exchange which is allocated to buying food from abroad and to promote productivity, in order to boost exports. Indeed, Jamaica currently spends approximately US\$ 1 billion importing food products, whereas they export only US\$ 270 million in agricultural goods. In such context, the Ministry of Agriculture and Fisheries (MoAF), supported by the IDB and the European Union⁹⁰, has adopted the “Agro Park” plan⁹¹. According to representatives of the MoAF, the adoption of appropriate risk management strategies is essential to achieve this objective.

For the Jamaican government, insurance has been considered an important component of its disaster risk management strategies for agricultural production. As noted in the Context Section, Jamaica is a country that is particularly prone to catastrophes, such as hurricanes, strong winds and heavy rain events. Given this, the importance of insurance to the country has been highlighted since 1940 by the adoption of public strategies, such as crop-protection insurance schemes in respect of bananas, coconuts, and coffee against certain specific catastrophic events, as mentioned in the supply section.

Currently the Jamaican government, notably through the MoAF and the commodities boards (BB, CoB,

⁹⁰ The European Union is going to invest more than US\$ 400 million and the IDB around US\$ 540 million, to put critical infrastructure in place at some of the Agro Parks. (Ministry of Agriculture and Fisheries, FAO, RADA, and C-CAM 2012) (Ministry of Agriculture and Fisheries, FAO, RADA, and C-CAM 2012)

⁹¹ The purpose of the Agro Park Plan is to canalise government efforts to develop a market-led, inclusive and sustainable agricultural sector, by strengthening agriculture production, notably by the introduction of appropriate information, skills, technologies and practices, amongst others. The development of the Agro Park Plan played an important role in the IMF deal sealed in May 2013. “Agro Parks” are defined by the MoAF as a “*spatial clustering of different agro-production chains and related economic activities*”.

CIB, amongst others), has been considering different avenues for adopting more appropriate risk management strategies, by moving from an ex-post risk management approach towards the adoption of ex-ante financial instruments, such as more tailored and financially sustainable insurance programs⁹². Indeed, for the first time in Jamaica, disaster risk reduction is an essential component of the national agenda of the agriculture sector (Ministry of Agriculture and Fisheries, FAO, RADA, and C-CAM 2012). An example of this is the adoption of the Agriculture Disaster Risk Management (ADRM) Plan in 2010 that was prepared for Jamaica by the Food and Agriculture Organisation of the United Nations (FAO) in collaboration with the MoAF. In all cases, the government aims to ensure that valuable stakeholders in the agricultural sector, such as the commodities boards, producer marketing organizations, producer cooperatives, associations of farmers and fishermen, the Rural Agricultural Development Authority (RADA), amongst others, participate in the design of these strategies. Such participation must be aligned with the limitations that these stakeholders suffer; such is the case of the legal limitations placed on commodities boards which prevents them from acting as risk carriers⁹³.

The government recognizes that some insurance products should be compulsory to cover certain risks. Besides the compulsory banana insurance mentioned above, there are three other insurance products that are compulsory in Jamaica:

Firstly, motor vehicles insurance, covering third party risks, is mandatory for every vehicle owner before the vehicle can be used on a road⁹⁴.

Secondly, according to the Motor Vehicle Insurance (Third-Party Risk) Act, vehicle owners must also have an insurance policy to cover liability in respect of the death of, or bodily injury to, persons being carried in or upon, or entering or getting onto or alighting from, the vehicle at the time of the occurrence of the event in relation to which the claim arises.

Thirdly, the NIS is the compulsory contributory funded social security scheme which covers all employees in Jamaica⁹⁵. According to the National Insurance Act (1966), every Jamaican citizen over the age of 18 and under the retirement age must be insured and remain insured according to the provisions of the National Insurance Act⁹⁶ until they reach the retirement age⁹⁷. Self-employed persons are liable to

⁹² For instance the BB and CoB have been studying the possibility of implementing parametric insurance products (World Bank 2009).

⁹³ According to the World Bank, commodity boards suffer the following limitations which prevent them from transferring risks to the reinsurance market: (i) lack of clear methodologies on ex-post loss assessment, (ii) considerable moral hazard issues in past transactions, and (iii) legal barriers which prevent CBs from acting as insurers. In addition, farmers' trust in such organisations has been impaired after cases where the assessment of the loss and the pay-out of the claim were not undertaken in a timely and appropriate manner (World Bank 2009).

⁹⁴ This mandatory insurance is governed by the Motor Vehicles Insurance (Third-Party Risks) Act (1941). The persons found in contravention of the provision are liable for a penalty subject to a maximum of JMD 2,000 (US\$ 20) or imprisonment for a maximum term of six months and the offending person will be disqualified from holding or obtaining a license for a period of twelve months.

⁹⁵ According to the MLSS, "This category includes factory workers, private household workers such as butlers, chauffeurs, cooks, gardeners, general helpers, housekeepers and nurse-maids, and all other employed person including civil servants, teachers, nurses and members of the security forces" (Ministry of Labour and Social Security, 2012)

⁹⁶ Contributions to the NIF are made by the insured persons (employees, self-employed persons, and by voluntary contributors) and their employers when applicable.

⁹⁷ If the retirement is from regular employment, the retirement age is 65 for men and 60 for women (the age for women has been increased on a phased basis over a period of 5 years between 2011 and 2016 from 60 to 65). For other cases, the age of retirement is 70 for men and 65 for women.

contribute 5% of their earnings annually to the NIS. Contributions to the NIS made by the self-employed, any voluntary contributors and contributions made by domestic and private workers are made by the use of a “stamp card”⁹⁸.

Some government entities are aiming to design and implement insurance strategies for certain sectors of the population. As mentioned in the supply side section, the product GK Amed of JIIC is intended for migrant workers who participate in the migrant program of the Ministry of Labour and Social Security. Also, there is an initiative of mandatory life insurance for fishermen working in collaboration with the fishers’ cooperatives and other organizations (Draft Fisheries Act) (MOAF 2008). According to this initiative, these insurance schemes will be interconnected with strict implementation of safety regulations and safety equipment. The purpose is to collect the life insurance premiums as part of the fishing licence fee⁹⁹. In addition, during our consultations we understand there has been some discussion in relation to designing insurance products for small farmers¹⁰⁰.

Even though Jamaica had not adopted a comprehensive financial inclusion strategy, Jamaica is on its way to doing so. There is growing interest in recognising the importance of access to financial services, through the adoption of certain policies and regulations. Entities such as the FSC, the BOJ, the MoFP, the DBJ, amongst others, have been advancing the agenda on financial inclusion for a while. In addition the World Bank currently supports a recently launched initiative that seeks to encourage the adoption of a national strategy of financial inclusion.

Firstly, microfinance has been encouraged by the government, not only by the establishment of a special program with the DBJ to lend funds to MSME, but also by the presentation of a proposal to “*establish a regulatory framework for money lending institutions that are not regulated by any of the supervisory authorities*”. In this proposal, the MoFP tried to address deficiencies in the operation of the industry, provide for improvement in monitoring the industry, protect the consumer by ensuring transparency and reduce risks or eliminate the industry being used as a vehicle to facilitate money laundering.¹⁰¹

Secondly, the BOJ recently adopted the “Guidelines for Electronic Retail Payment Services” or Mobile Money (the Guidelines) on 1st February 2013. These Guidelines outline the standards to be observed by electronic retail payment service providers, to foster and to maintain public trust and confidence by electronic retail payment service providers and to promote financial inclusion (Bank of Jamaica 2013). Based on the Guidelines, the BOJ is in charge of providing authorisations to electronic retail payment services which was to commence operations April 2013. However, during our consultations it was highlighted that what the BOJ has granted are non-objection letters to pilots and that there are some shortcomings regarding the interpretation of the Guidelines. The latter has created a degree of confusion amongst participants in the electronic retail payment services. This development has facilitated the launching of the different pilots mentioned in Box 11 Interestingly, the BOJ adopted a risk-based approach when applying the Anti-Money Laundering (AML) rule, in particular, certain “Know your Customer” (KYC) requirements were simplified.

⁹⁸ These cards are available at NIS offices and NIS stamps (one stamp for each week) can be purchased at Post Offices, once the card is completed it will be submitted after the end of the financial year.

⁹⁹ Fishermen must be registered in Jamaica. As at 31st June 2013, 19,440 fishermen were registered. Information provided by the MOAF during interviews.

¹⁰⁰ In Jamaica there are about 200,000 small farmers according to the MOAF. Small farmers are considered as farmers with farms less than 25 acres.

¹⁰¹ (Ministry of Finance 2013)

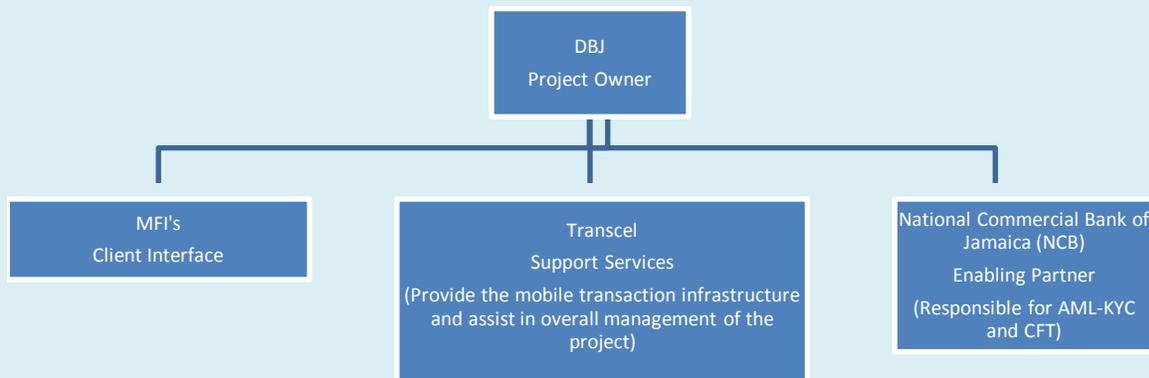
Box 11: Mobile Money experience in Jamaica

Box 11: Mobile Money experience in Jamaica

Mobile Money is in the early stages as guidelines have just recently been issued by BOJ and two pilot projects are underway with non-objection status from BOJ. DBJ and JCCUL are currently running Mobile Money pilot projects for MFI's and credit unions respectively and it is very possible that next year more organizations would get the same special permission. BOJ is watching the Mobile Money projects to see what regulatory modifications would be needed.

DBJ's Mobile Money for Microfinance (M3) pilot project is a partnership with the MFI's, Transcel (a Jamaican technology company), NCB and mobile network companies to work through the challenges of implementing Mobile Money services. The focus on using Mobile Money to provide greater access to financial services, reduce the cost of micro transactions and give MFI's and their customers more flexibility in lending and payment options. They will use the project to help determine how to improve efficiencies to better meet the clients' needs, what the highest priority mobile financial services are, areas of regulatory guidance which are of most concern and the most appropriate commercial banking collaboration. Regulations allow for digital signatures which would be needed if Mobile Money was used for microinsurance. However, financial education of the public is required for Mobile Money to be accepted as a regular transaction platform.

Organization structure of Key Partnerships in DBJ's Mobile Money for Microfinance pilot project



JCCUL's Mobile Money pilot project is focussed on creating a bill payment portal where any bill could be paid by phone. They want to move into mobile wallets, however, the regulations from Bank of Jamaica are not set up yet and they are awaiting approval.

Thirdly, the BOJ is discussing the possibility of allowing agent arrangements in the draft of the Banking Services Act 2014. This legislation will be the result of the consultations initiated by the BOJ at the end of 2012. Indeed, on December 2012, the BOJ presented to the industry a consultation paper with some proposals in order to enhance the legislative framework for the deposit-taking sector. Amongst these proposals included was the incorporation of "enabling provisions to allow for the extension of banking services through agents". These agents could engage in the following activities: (i) cash deposits and cash withdrawal (within specified limits); (ii) cash payment of bills and loan repayments; (iii) transfer of funds; (iv) balance enquiries; and (v) collection of documents from customers for services or facilities (such as account opening and loan applications etc.). Nevertheless, the BOJ highlights that other activities could also be included. To warrant consumer protection, these agents must comply with some specific requirements established by the BOJ (See Box 12).

Box 12: Requirements to be a bank agent

Box 12: Requirements to be authorised as a bank agent

- a. Successful operation of the agent for a minimum period of three (3) years;
- b. Agents must have a sufficiently broad customer base;
- c. Meet minimum fit and proper criteria for owners (10% and over voting power); directors and managers;
- d. Legally registered as a body corporate to operate in Jamaica and have a history of complying with tax and other statutory obligations as a legal Jamaican body corporate;
- e. Demonstrate the capacity to carry out certain aspects of basic AML/CFT measures (such as collection of relevant customer data) on the Deposit Taking Institution's (DTI) behalf; notwithstanding the foregoing, the ultimate responsibility for undertaking Customer Due Diligence (CDD) remains that of the DTI.
- f. Have the capacity and capability (without reliance on outsourcing arrangements) to prudently manage and execute the functions under the mobile service agreement – (including having the minimum computer hardware and software requirements and capacity including personnel, resources and control systems to handle electronically transmitted data in an adequate and safe manner);
- g. Must be able to adhere to the same confidentiality constraints as the DTI(s) with which they have partnered, and the DTI must also have the capacity to enforce or ensure compliance of the confidentiality obligations;
- h. Must operate within thresholds specified by the Supervisor (e.g. JMD equivalent of US\$ 1,000 for cash transactions). (Customers who wish to operate accounts in excess of these thresholds will be required to enter into formal arrangements directly with DTIs.) It should be noted that the agency facilities will only be authorized to undertake transactions in JMD at this time.

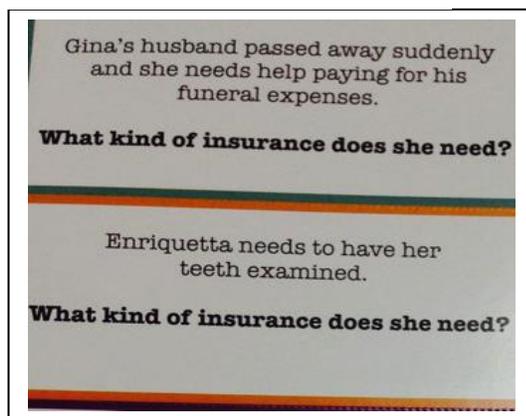
Source: (BOJ 2012)

Fourthly, since 2012 the FSC has been running a financial education program presented below.

Financial education is a priority for the Jamaican government; and in particular for the FSC.

Government entities such as the DBJ, the BOJ and the FSC are designing and implementing financial education programs. There is currently no comprehensive and cohesive national financial education strategy, although there is an increasing interest in creating one. Yet the main concerns relate to the funding of these kind of projects. In particular, the FSC financial education program, "JA Personal Finance Program", is offered to children and young people in schools who are generally amongst unprivileged segments of the population. The program is supported by Junior Achievement Worldwide and includes an insurance section; "session five: Protect yourself", and it has different methodologies to measure its impact (See Box 13). The FSC also has a TV spot in a free access TV channel, "the FSC minute", where emerging issues (such as those relating to financial education) are broadcasted. It is anticipated that it will address microinsurance in the near future. In 2012, the FSC, as a member of the OECD's International Network on Financial Education (INFE), funded the implementation of a National Financial Literacy Baseline Survey in order to determine levels of financial literacy in the country¹⁰².

Box 13: Sample of the "make it match" game from the FSC financial education program



¹⁰² See section Factors that impact the demand of insurance products

Improvements to the national cash transfer program “PATH” have been implemented; some of these improvements promote access to financial services. The Programme of Advancement Through Health and Education (PATH) is a conditional cash transfer program that was introduced in 2002 by the Government of Jamaica and is administered by the MLSS. “PATH” is currently encouraging beneficiaries to apply for cash cards offered by the NCB bank. Through these cards, beneficiaries are encouraged to access their funds electronically to purchase goods and services. Nowadays “PATH” has 390,000 users who are largely based in rural areas. There is growing interest in launching pilots in respect of mobile money transfers to beneficiaries of “PATH”.

There is growing interest in promoting and ensuring the sustainability of micro and small and medium entrepreneurs through access to financial services, however insurance has not been highlighted. The Ministry of Industry, Investment and Commerce adopted the MSME policy in May 2013¹⁰³. This policy aims to reduce or eliminate barriers to the formation, formalisation and sustainable development and growth of businesses in the MSME sector. Among others, the MSME policy promotes access to financial services. Yet insurance is not specifically mentioned in the policy. Indeed, insurance is only mentioned as a mechanism to pave the way to access credit (such as in the context of loan default insurance). In other words, in terms of access to financial services, the policies address challenges related to the access of credit. Insurance only receives a general mention; the MSME policy supports the introduction of “innovative financial products and services such as Mobile Money” and calls for the restructuring of the MFI sector in order to ensure “*levels of efficiency and effective allocation of credit to the MSME sector*”¹⁰⁴.

This public policy is accompanied by other government initiatives, such as those of the DBJ and the creation of the Self Start Fund (SSF), which provides loans to micro and small entrepreneurs and individuals and is hoping to lend more than US\$ 100 million to the MSME sector in 2014/15 and create 1,000 jobs. The promotion of MSME is also supported by associations, such as the MSME Alliance¹⁰⁵, the Small Business Association (SBAJ)¹⁰⁶, and the recently created, Jamaica Association for Micro-Financing (JAMFIN), although, such associations and initiatives lack cohesion and interaction with one another.

The Government of Jamaica is engaged in leveraging the economic productivity of the Jamaican Diaspora. Besides different private initiatives which encourage the creation of networks of Jamaicans in countries such as the United States, Canada and the UK, the Government is providing a unique platform, supported by the Ministry of Foreign Affairs, in order to provide training and create business opportunities for the Jamaican Diaspora, the Jamaican Diaspora program.

¹⁰³ The DBJ and the Ministry of Industry and Trade have formalized definitions of MSME’s. Even though they are different in the threshold number of employees and sales required, the definitions do provide a framework to segment MSME. See Annex 2, Section 2. The STATIN includes the informal sector under such headings as own account worker/sole proprietor, sole trader or “outside the Labour force”.

¹⁰⁴ (Ministry of Industry, Investment and Commerce 2013)

¹⁰⁵ MSME alliance is an association of Small and Medium enterprise (SME) associations. The objective of the alliance is to bring about business awareness through capacity building initiatives and to lobby on behalf of the members to bring about a better business environment. They were actively a part of the new MSME policy that was distributed by the Ministry of Industry and Trade. Currently, there are 40 associations that are members of the alliance. The MSME Alliance is a network of business organizations representing more than 300,000 MSMEs in Jamaica.

¹⁰⁶ The SBAJ is a private non-profit business organisation aiming to foster the growth and development of businesses and professional groups and to represent the entire small and micro business sector.

The Jamaican Government is committed to ensure universal health care. However, in periods of financial contraction, notably under the IMF agreement, budget restrictions are anticipated and this could affect universal access to health care and/or the quality of services. In this context, one of the goals of the Government's development program "Vision 2030", is to introduce a program for the sustainable financing of health care. Indeed, Section 26 of the NHF Act states that the Minister of Health might introduce regulations for a national health insurance plan in future. In such perspective, the government of Jamaica is planning to introduce a national health insurance scheme in the country¹⁰⁷.

5.2 Supervision

The supervisory regime that is applicable to the general insurance activity is also applicable to microinsurance. The supervision of the insurance sector in Jamaica is conducted by the FSC, which was established in 2001 in accordance with the Financial Services Commission Act 2001 (FSC Act) and replaced the Office of the Superintendent of Insurance (OSI). The creation of the FSC was a response to the instability and crisis that faced the financial sector in Jamaica between 1996 and 1999. The crisis was largely due to a weak regulatory framework for the financial sector, including the insurance industry. Therefore, following the crisis, the government adopted a stronger regulatory framework, which was implemented through the Insurance Act and the Insurance Regulations¹⁰⁸.

Pursuant to Section 6 of the FSC Act, the main objective of the FSC is to ensure that consumers of financial services are protected. To achieve this, the FSC Act empowers the FSC to supervise and regulate financial institutions; to promote the adoption of procedures that are designed to control and manage institutional risks; to promote stability and public confidence in the operations of such institutions; to promote public understanding of the operation of financial institutions; and to promote the modernization of financial services.

Currently the regulatory framework for insurance does not provide for a particular supervisory regime for microinsurance products or business. Therefore, the products that have been considered as microinsurance products in this study fall under the same supervisory framework and practices as all other insurance products. In any case, the FSC must ensure the financial soundness of the insurance companies that offer microinsurance products, enforce regulatory requirements, promote a competitive and reliable market and effectively protect consumers in the same way as it should in respect of the conventional insurance market.

The FSC has been following this approach for the last three years, as can be seen when certain insurance products (having the characteristics of microinsurance products) were registered with the FSC and are deemed to comply with the Insurance Act and Insurance Regulations.

It is noteworthy that the FSC's supervisory scrutiny is exercised not only in the initial stages of the insurance product cycle, namely in the licensing of the insurance company, any intermediary and at the

¹⁰⁷ According to the Draft Health Sector Plan of Vision 2030 Jamaica National Development Plan, the introduction of national health insurance scheme is one of the priority projects of the Board of the NHF and it is taking initiatives to design and implement the national health insurance scheme.

¹⁰⁸ The key changes that were introduced were: new solvency standards; the compulsory appointment of an actuary; an insurance accounting standard; regulations controlling the investment of assets and the provision of loans by insurance companies and new penalties for non-compliance.

registration of the product, but also the FSC exercises a substantial prudential supervision at an on-going basis. Nonlife insurance products do not need to be registered with the FSC but the supervisory scrutiny is exercised *ex-post* in respect of nonlife products, notably through *ad hoc* visits *in situ* and by following up on any consumer or competitor complaints. The FSC maintains a register of life insurance companies, association of underwriters¹⁰⁹, insurance intermediaries and products, comprising details of the insurance policies (life insurance) and the relevant certificates.

Reporting obligations are applicable, however there is a weak reconciliation of data with the industry.

Insurance companies must submit an annual report to the FSC within 90 days from the end of each financial year and provide a copy of their audited financial statement. Insurance companies that are licensed for long-term insurance business must submit, within 90 days from the end of each financial year, a summary of the actuarial report and a statement of its long-term business. Special reporting obligations are applicable for insurers who are part of financial conglomerates. According to Section 29 of the Insurance Act, insurers must keep records of all the policies they issued in the country, showing the rights and obligations of the insurer, the aggregate amount of the premiums received in respect of all of its policies and all the premiums paid in respect of reinsurance. The FSC publishes every year an annual report containing the features of the insurance market in Jamaica. The FSC gathers and analyses information regarding internal complaints-handling and a brief summary of this analysis is published in the FSC Annual Report. This brief summary does not mention individually the insurance companies and provides a very general overview of the most common reasons of complaints. This matter is also addressed in the Annual Risk Assessment of each insurance company.

Insurance companies, agents and brokers must appoint auditors. In addition, insurers must appoint actuaries. Importantly, according to Sections 37 and 44 of the Insurance Act all these institutions must appoint auditors, in order to ensure independent control and monitoring of their activities. In addition, insurers must appoint actuaries in order to guarantee the technical appropriateness of offered products and financial sustainability of the company.

The level of dialogue and cooperation between the supervisory authorities of different entities involved in the microinsurance value chain is not fluent. As a consequence of the development of microinsurance, more entities will enter the market, so will the remit or responsibilities of supervisory authorities. Amongst such supervisory authorities, we can mention the following: the BOJ, which supervises banks and aims to supervise credit unions; the DCFS¹¹⁰, which currently supervises credit unions and it is anticipated that it will supervise rural banks (PC Banks)¹¹¹; the Agriculture Credit Board, which currently supervises rural banks; and potentially, a new Regulatory Authority which will be in charge of the supervision of MFIs according to the policy guidelines provided by the MoFP (Ministry of Finance 2013). Although the dialogue between the BOJ and the FSC is strong, we found during our consultations, that this is not the case between the FSC and DCFS, or between the FSC and the Agriculture Credit Board.

¹⁰⁹ According to the Insurance Act, an “association of underwriters” is an “*association of individual underwriters whereby every underwriter member of a syndicate becomes liable for a separate part of the sum secured by each policy subscribed to by that syndicate, limited or proportionate to the whole sum thereby secured*”.

¹¹⁰ The DCFS is the regulator and supervisor for cooperative societies, which include the credit unions, friendly societies and fully industrial friendly societies. The DCFS also facilitate dispute resolution between members and cooperatives, friendly societies and fully industrial friendly societies.

¹¹¹ In 2010, the Government provided that the DCFS will be the regulator and supervisor of PC banks, instead of the MOAF’s Agricultural Credit Board. Currently, this transfer of supervision and regulatory competences is taking place.

There is uncertainty in respect to how the supervision of entities that are not licensed to act as insurance companies but offer insurance schemes operates. The Insurance Act recognises two cases where the Insurance Act will not be applicable:

- Section 3(5) of the Insurance Act provides that the Insurance Act will not be applicable to an organisation that is registered under any enactment that relates to friendly societies, co-operatives, building societies, trade unions or to any other similar organisation. In this case, these entities are allowed to provide basic insurance coverage to their members under self-insurance schemes but only below certain thresholds. Such self-insurance activities are regulated by the regulatory framework of each organisation. These member-based entities may also opt for a group insurance policy of a licensed insurer, a common practice in Jamaica.
- Section 20 of the Insurance Act provides that an insurer or insurance intermediary may place or cause to be placed contracts with non-registered insurance companies where an application is made to the Commission for permission to do so. This provision is complemented by Section 145 of the Insurance Act, which provides that the FSC, through its regulations, can exempt any class of insurance business where the FSC considers the exemption necessary. Examples of this exemption are the CCRIF, EXIM Bank and the Banana Insurance Scheme. In these cases, it is not clear whether the end consumers of such products are receiving equivalent protection as afforded to consumers of products in the traditional or micro insurance market where the Insurance Act is applicable.

The regulation on how an insurer treats policyholders is brief and, to a certain extent, incomplete. The Jamaican Insurance Act has a brief reference to the need for insurers to take steps to ensure that policies they issue provide fair value to policy holders. Unfortunately this requirement is not further explained in the regulations and other rules, nor is the FSC actively enforcing the fuller dimensions of this requirement. The FSC will not be able to effectively supervise insurer's policies and actions in regards to treating customers fairly until this aspect of the regulations, and the supervisory practice, is strengthened.

Currently Jamaica does not have a Privacy Law addressing the obligations that corporations have in respect to protecting confidential information collected from consumers, however currently there is a Data Protection Act that is to be enacted. As a result, currently the information that insurers collect from policyholders is not adequately protected by law. The FSC did indicate there is a Data Protection Act on the table now to address this issue. Privacy is an important right, whether it is for conventional or microinsurance consumers.

The CAC provide advice to consumers during complaint-handling and dispute resolution processes. According to Sections 6 and 7 of the Consumer Protection Act, amended in 2012, the CAC¹¹² has a mandate to: (i) investigate directly or on behalf of the consumer when the latter is adversely affected by a good or service provided; (ii) collect and compile information in relation to any trade of business; (iii) provide information about their rights and obligations; (iv) implement education programs for consumers; (v) resolve disagreements between consumers and providers; (vi) institute legal proceedings on its own name or on behalf of consumers; (vii) provide legal support and advice to consumers. In such

¹¹² The CAC is part of Consumers International and the Caribbean commission, and it has a close relationship with the CARICOM.

perspective the CAC could play an important role in order to empower the microinsurance consumer. The CAC has proved that it can also play an important role in self-regulation, as they recently supported the adoption of the Code of Conduct of the banking sector. Importantly, the CAC keeps good communication channels with FSC.

Exceptions are available in respect of anti-money laundering (AML) requirements, such as “Know Your Customer (KYC)” verifications. Given that these exceptions are based on quantitative thresholds and that microinsurance products generally fall below such thresholds, microinsurance products could also be able to benefit from such exceptions. All financial institutions, including insurance companies, have the duty to implement policies and procedures to prevent and detect the financing of terrorism and money laundering. Therefore, they must report transactions and proceed with KYC verifications when dealing with their clients. However, according to Regulation 3 (8) of the Money Laundering Prevention Regulations, 2007, when the transaction falls below US\$ 15,000, financial institutions, including insurance companies, are not under the obligation to report the transactions to the designated authority. Keeping in mind that generally, transactions associated with microinsurance will be below that threshold, insurance companies could not be required to report these transactions as the above regulation does apply to financial institutions supervised by the FSC. Regarding with KYC verifications, all prospective customers must be identified when they open an account, a business relationship is established, or a significant one-off transaction is undertaken. However, the applicable regulations allow certain exemptions for “small one-off” transactions, which are transactions below US\$ 250, payments by telephone or by post and certain electronic arrangements. These exemptions could be applicable to microinsurance products as well. In respect of the possibility of applying these exemptions to insurance products below the thresholds the consultants are uncertain as the issue could not be finally clarified with FSC.

5.3 Regulation

Jamaica has not adopted any specific regulation on microinsurance. The regulatory framework which is applicable to the microinsurance value chain is composed of a broad set of pre-existing regulations that deal with insurance (notably the Insurance Act and the Insurance Regulations), banking, the cooperative sector, consumer protection, fair competition, anti-money laundering, friendly societies, building societies, taxation and corporate governance, amongst others.

In addition, the design and delivery of microinsurance products will also be impacted by future regulations that are currently being discussed, such as the regulation of credit unions, NBAs and MFIs, and the BOJ policy on electronic payments, as referred to in the public policy section. The microinsurance value chain may also be impacted by the regulations that are adopted under the umbrella of the CARICOM.

Supervision is somewhat hampered by a slow process with unpredictable timeframes for enacting or changing regulations. The process involves the FSC first sending draft regulations to the MoFP allowing the MoFP to liaise with the Chief Parliamentary Counsel (CPC) so that the CPC can prepare the amendments to the Regulations, then reviewing the amendments to ensure that the original drafting instructions are captured, subsequently obtaining the formal approval of the MoFP, and then finally laying it in both the Upper and Lower Houses for 21 days prior to approval. As a result of delays caused by this process the FSC has relied instead on issuing of guidelines and bulletins *in lieu* of making changes

to regulations. Although the FSC reports that insurers generally comply with all such bulletins and guidelines, they do not have the force of regulation, and so create the potential for enforcement problems should disagreements arise with the industry.

Regulatory tools are scattered and sometimes difficult to find. There is wide range of legal and administrative instruments that provide the regulatory framework of the insurance activity, however they are not easily accessible and there is room for contradiction between these instruments¹¹³. This situation could have a negative impact as it entails legal uncertainty in the insurance industry and within consumers (the policyholder (including group policies holders such as MFI's and credit unions), the insured party and/or the beneficiary). Indeed, the industry and new entrants in the microinsurance business could find it difficult to have a clear idea of the rules that are applicable to them; a situation that does not promote transparency. In addition, besides the lack of awareness of the regulatory framework applicable to microinsurance that normally characterises the microinsurance consumers, they also confront an obstacle to easily find all the regulations, guidelines, bulletins applicable to the insurance activity.

5.3.1 Licensing and prudential requirements of risk carriers

Insurance companies and associations of underwriters that are registered with and licensed by the FSC to carry out long term (life insurance) or general insurance business can act as risk carriers in Jamaica. The Insurance Act provides that only “bodies corporate”¹¹⁴ that are registered with the FSC for a specific class of insurance business (long term or general insurance business) can act as risk carriers in Jamaica. They can either be “companies”¹¹⁵ or “mutual companies”¹¹⁶. In addition, Section 61 of the Insurance Act, allows “associations of underwriters” to carry out insurance business if they are registered with the FSC. The Insurance Act penalises business organisations and individuals which act as risk carriers without being authorised to do so. The sanctions for breaching the Act, include fines of up to a maximum of US\$ 34,500 or/and imprisonment for maximum three years. The FSC has challenged certain insurance schemes where risk carriers were not registered insurance companies.

Insurance companies and associations of underwriters registered and licensed by the FSC must comply with certain prudential requirements such as, capital requirements, solvency margins, reserves¹¹⁷ and investment regulations¹¹⁸. For the case of companies and associations of underwriters offering long-term insurance business, the minimum capital is JMD 150 million (US\$ 1.73 million) and for general insurance business, JMD 90 million (US\$1.04 million). Importantly, according to Section 9 of the Insurance Act for the case of mutual insurance companies, the aforementioned minimum capital requirements are not applicable, however, they will only be registered if the mutual insurance company

¹¹³ The FSC's website provides a link to the Ministry of Justice's website for the applicable insurance laws. However there is no a list or Inventory of the applicable regulation available for the public. FSC has indicated that there is a regulation that prevents FSC to create this kind of lists or inventories, but we have not had access to it.

¹¹⁴ Bodies corporate are companies incorporated and registered under the Companies Act 1965 of Jamaica.

¹¹⁵ According to the Insurance Act, “companies” means a “body corporate which carries on or proposes to carry on insurance business in Jamaica”.

¹¹⁶ Mutual companies are defined by the Insurance Act as companies “whose capital is owned by the policyholders of that company and includes a company which has agreed to purchase back or is in the process of purchasing back its share capital at a fixed price and is recognized by the Commission as a mutual company”.

¹¹⁷ According to Section 117 of the Insurance Act 2001 all insurers must maintain appropriate reserves to meet its liabilities.

¹¹⁸ Rules and regulations regarding investment of funds by insurance companies is specified in Sections 22 and 23 of the Insurance Act 2001 and regulations 38–72 of the Insurance Regulations 2001.

has, in relation to policyholders, an “*uncommitted reserve of the prescribed amount*”. In addition to these minimum capital requirements, insurance companies and associations of underwriters must hypothecate a deposit a sum as specified in Section 21 of the Insurance Act to the FSC. For long-term insurance business, the deposit is of JMD 90 million (US\$1.04 million), and for general insurance business JMD 45 million (US\$517,500).¹¹⁹ Solvency margin requirements for insurance companies operating in Jamaica are specified in Section 28 of the Insurance Regulations 2001. According to the legislation, insurance companies offering long-term insurance business must maintain at all times, as a solvency margin, 100% of a Minimum Continuing Capital and Surplus Requirement (MCCSR)¹²⁰. General insurers are required to comply with a Minimum Capital Test since 2011.

However, non-admitted insurance companies can offer insurance products when equivalent protection is not provided by registered insurance products. Policyholders are free to seek insurance cover wherever they choose and are not restricted to purchase their insurance products locally. In addition, according to Section 20 of the Insurance Act, it is possible for insurers or insurance intermediaries to enter into an insurance contract with a non-admitted insurance company (i.e. those companies that are not registered with, and licensed by, the FSC) to offer insurance products only if equivalent protection (to that being offered) is not provided by registered insurers in Jamaica. In this case, permission can be obtained from the FSC to enter into such contracts if the applicant meets the prescribed requirements as specified in Section 20 of the Insurance Act, the Insurance Regulations, and as prescribed by the FSC. Note that such non-admitted insurance companies are not necessarily covered under the regulations which apply to the insurance industry in Jamaica. This provision is used for very special type of insurance not present in the country, however, given the lack of microinsurance products on offer, it may be feasible for non-admitted insurance companies to request permission from the FSC to provide microinsurance products.

In addition, the Insurance Act leaves room for informal insurance provision by friendly societies, co-operative societies, building societies, trade unions or any other similar organisation. According to Section 3(5) of the Insurance Act, the Act is not applicable to “*any organisation that is registered under any enactment that relates to friendly societies, co-operatives, building societies, trade unions or to any other similar organisation*”. (Section 3(5) Insurance Act). In principle, these entities could self-insure up to the threshold if regulated in their respective frameworks; however, the consultants did not find evidence of such self-insurance schemes. Rather, these entities insure their members in group policies which are underwritten by a licensed insurer.

Jamaica has a strict demarcation. Insurers are classified as long-term insurers and general insurers based on the type of insurance contracts they underwrite. However, accident insurance can be offered by both. According to the Insurance Act, long term business “*could be all or any of the following classes, namely ordinary long term insurance, business and industrial life, life insurance business and in relation to any company, insurance business carried on by the company as incidental only to any such*

¹¹⁹ The monetary conversions in this section are based on 2011 exchange rates as per the report by Timetric, “*The Insurance Industry in Jamaica, Key Trends and Opportunities to 2016*”, (February 2012)

¹²⁰ MCCSR is a level of capital and surplus that reflects the level of risk of assets and operations of insurance companies offering long-term insurance business.

*class of business*¹²¹. Therefore, “long-term insurance business” in Jamaica would be similar to “life insurance business” and includes health insurance.

According to the Insurance Act, “general insurance” includes: accident; liability; marine, aviation and transport; motor vehicle, pecuniary loss and property insurance businesses.

A composite insurance license, under which an insurer could underwrite and sell both long-term and general insurance policies, is not allowed in Jamaica. Section 8 of the Insurance Act 2001 states that an insurer must not be registered to carry out both long-term and general insurance business except in the case of “accident insurance business”. Therefore, accident insurance business can be carried on by both long-term insurers and general insurers¹²². It is noteworthy that the following contracts of insurance are not considered as part of accident insurance business: insurance contracts against loss resulting from the illness or disability of a person other than loss resulting from death; whereby an insurer undertakes to pay a certain sum or sums of money in the event of the illness or disability of person; and against expenses incurred for vision or dental care, laboratory or x-ray services, hospitalisation, or other medical or health care services.

Insurance companies incorporated in CARICOM countries are not considered to be “foreign companies”. Foreign companies can register as risk carriers in Jamaica. According to the definitions of the Insurance Act, foreign companies are those that are incorporated outside of the CARICOM. This fact is a reflection of the on-going dialogue in the CARICOM to reduce entry barriers for insurance companies from member countries. However this dialogue has been taking place for several years. Insurance companies can be national or foreign. In the latter case, according to Section 11 of the Insurance Act a foreign company must satisfy the following requirements: (i) be incorporated in the country in which it is domiciled and registered to operate the same classes of insurance business in such country for which it intends to obtain a license to operate in Jamaica; (ii) the applicant must have been carrying on insurance business in its country of domicile for a minimum of five years prior to the date of the application; (iii) the foreign insurer must have appointed a Jamaican resident as its principal representative in Jamaica and should inform the FSC, in writing, of the name and address of that person.

5.3.2 Distribution and transactional platforms

Distribution of insurance products in Jamaica is restricted to duly licensed insurance intermediaries. There is no provision for alternative distribution channels. The FSC has the power to issue licences to insurance intermediaries, who comprise, according the definitions of the Insurance Act, insurance

¹²¹ In particular, ordinary long term insurance is defined as: “(...) *business (excluding industrial life insurance business) of any of the following kinds (...) on human life or contracts to pay annuities on human life; against the risk of the persons insured sustaining injury or dying as a result of an accident, or of an accident of a specified type; against loss resulting from the illness or disability of a person other than loss resulting from death; whereby an insurer undertakes to pay a certain sum or sums of money in the event of the illness or disability of a person; against expenses incurred for vision or dental care, laboratory or x-ray services, hospitalization or other medical or health care services; whether effected by the issue of policies, bonds or endowment certificates or otherwise whereby, in return for one or more premiums paid to the insurer, a sum or a series of sums is to become payable to the insured in the future*”.

¹²² According to the Insurance Act, “accident insurance business” is: “(...) *the business of effecting and carrying out contracts of insurance (excluding paras c, d, and e of the definition of ordinary long term) against the risks of the persons insured sustaining injury or dying as a result of an accident, or of an accident of a specified type, which provides for fixed pecuniary benefits or benefits in the nature of an indemnity or both*”.

brokers¹²³, agents¹²⁴, sales representatives¹²⁵, adjusters¹²⁶, insurance consultants¹²⁷ or “other persons carrying on any business connected with insurance as may be prescribed”. Section 70(2) provides that any insurance intermediary that operates in Jamaica without a valid license is liable for a penalty of up to US\$ 34,500 or/and to imprisonment for a term of up to three years. In addition, Section 84 of the Insurance Act states that any insurance intermediary that places unlawful insurance contracts with an insurer that is not registered to carry on insurance business in Jamaica is directly liable to the insured person in respect of all such insurance contracts, to the same extent as the insurer. Insurance intermediaries must prove their expertise, probity (they are fit and proper persons or entities), financial capacity, and must pay a fee, however the Insurance Act is very broad on this issue and leaves the Insurance Regulations to establish such requirements. It is important to note that since formation of the Insurance Act and the Insurance Regulations in 2001, requirements for insurance intermediaries have been tightened, notably regarding the adoption of prudential requirements to brokers. Given that some of the entities that were acting as brokers before could not comply with these prudential requirements, notably, they found it difficult to comply with the minimum capital required; they lost their licence as they were not able to register under the new requirements.

When premiums are paid to brokers, agents or sale representatives, it is understood that such payment was made directly to the insurer. In addition, according to Section 84 of the Insurance Act, agents, brokers and sale representatives are personally liable to the insured person in respect of all contracts of insurance unlawfully made by or through him directly with an insurer who is not registered to carry on insurance business in Jamaica. Section 123 of the Insurance Act provides that every insurance company that authorises one or more agents must establish and maintain a system that is reasonably designed to ensure that each agent complies with the requirements of the Insurance Act and Regulations and provides for the screening of each agent for suitability to carry on business as an agent. In the same perspective, insurers must report to FSC if agents acting on their behalf are not suitable to carry out these activities.

Brokers and corporate agents, must keep records of all local policies issued, a record of the aggregate amount of premiums received on such policies and, if they are companies, a copy of the audited financial statements.

¹²³ Brokers are any person who in any manner solicits, negotiates or procures insurance or the renewal or continuance on behalf of insurers or agents; or arranges insurance business with insurers or agents on behalf of prospective policyholders.

¹²⁴ According to the Insurance Act, agents are “(...) any individual, firm or body corporate, not being an employee of an insurer appointed by that insurer to solicit applications for insurance or negotiate insurance on its behalf (otherwise than through an agent; and other than a broker, authorized by the insurer, to effectuate and countersign insurance contracts on its behalf”.

¹²⁵ Sales representatives are individuals employed by an insurer, agent or a broker to solicit applications or insurance or to negotiate insurance on behalf of that insurer or agent or on behalf of the client or broker, including a “collector”. According to the Insurance Act, a collector is every person who calls on policyholders for the purpose of receiving premiums payable under industrial life policies.

¹²⁶ Adjuster is the person, not being a salaried employee of an insurer or an attorney at law for an insurer or insured, who on behalf of an insurer or insured, for a compensation directly or indirectly, solicits the right to negotiate the settlement of or investigate a loss or a claim under a contract or a fidelity, surety or guaranty bond issued by an insurer, or investigates adjust or settles any such loss or claim. It also includes a person holding himself out as adjuster, investigator, loss assessor, consultant or adviser. An adjuster or consultant cannot be registered as an agent, broker or sales representative.

¹²⁷ Insurance consultant is a person providing insurance services not falling within any other category, or holding himself as such.

Entities that could play a role as potential distribution channels for microinsurance are currently being regulated and oversight in this area is being reinforced. The current formalisation of credit unions and MFIs could provide the basis for a future debate in respect of permitting these entities to act as distribution channels. However, the inclusion of additional activities in respect of the distribution of microinsurance products may require a specific amendment to the regulations that are currently been discussed.

Currently, products that are assimilated to microinsurance products in Jamaica are distributed under the umbrella of group insurance, where the “distribution channel” is the policyholder. However, there is limited consumer protection regulation in respect of group insurance. The existing provisions in respect of group insurance refers to the fact that the employer can act as policyholder and about the power of group life insured to sue insurers directly. Therefore, there are no clear rules of the disclosure obligations from policyholders to insured parties. This leaves policyholders with minimal protection.

So-called “bancassurance” in Jamaica, is not really bancassurance. Insurance distribution through financial institutions (bancassurance) is not permitted in Jamaica and FSC does not encourage insurance companies to offer products through financial institutions. Two banks are allowed to practice some form of “quasi-bancassurance” as the practice was grandfathered in based on prior practices. Indeed, these two banks (Scotia Bank and National Commercial Bank of Jamaica) created their own insurance companies followed by the creation of their banks, and started to sell their insurance policies in the banks premises. However, no specific regulation has ever existed for bancassurance before the Insurance Act or now. In these two cases, insurance representatives have always had separate offices in the bank that clearly indicate that they represent an insurance company separate from the bank. In such perspective, licensed insurance representatives in the bank branches can only sell products that are clearly demarcated and are not linked with the financial products offered by the financial institutions where the licensed insurance representatives are based. In general, FSC is very cautious about accepting these selling methods as it considers that the inter-linkages between financial institutions in the same conglomerate were a cause of the financial crisis in the 90s.

The use of NBAs and electronic payments may be unlocked by future regulation. The BOJ Guidelines on electronic payments and the Bill of the Banking Services Act, which is currently under discussion, encourages access to financial services amongst the low-income population. If these draft regulations are passed, the regulatory environment will reassure insurers to use such transactional platforms to ensure fast and simple transactions, which helps to lower administration costs. Besides this, currently insurance companies are taking advantage of the online mobile banking options such as JN Live, Scotia online banking, NCB Link, amongst others. In addition, bill payment facilities have been created, such as Bill Express and Paymaster.

5.3.3 Product registration

General insurance products do not need to be registered with the FSC before being offered to the public, whereas long term insurance products require prior approval from the FSC. According to Section 90 of the Insurance Act, an insurer needs prior approval from the FSC to issue a life insurance policy. In order to obtain such approval, the FSC asks an insurer to submit an actuarial report in respect of the suitability of the rate of premium chargeable under any policy issued by the insurer. FSC has clarified the product registration procedure in the Guidelines for “Procedure for the Approval of New

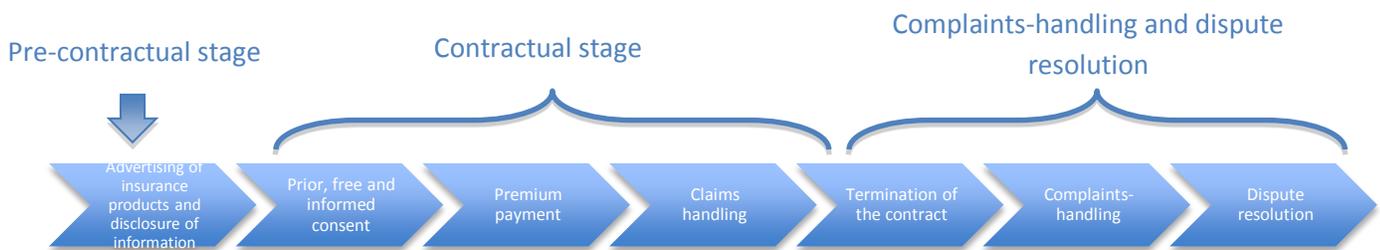
Insurance Policies and Insurance Policy Amendments under section 90 of the Insurance Act, 2001” issued in June 2007, emphasising the importance that companies carry out appropriate market research and feasibility studies.

However, the registration and prior approval of products in Jamaica is not mandatory for general insurance. Despite this, one insurance company that wished to offer a general “microinsurance product” decided to seek the FSC’s prior approval before doing so, notably because of the product’s related innovations concerning its distribution. In this particular case the registration process took 5 months overall and FSC paid special attention on the distribution model, business plan, policy wording, individual certificate, proposed marketing, etc. It is noteworthy that according to FSC it is not the norm to take 5 months to approve insurance products, and that it is important to consider that usually there is constant communication between the parties, therefore also insurance companies may take some time to address the outstanding issues.

5.3.4 Market conduct rules

In this section we will analyse the relationship between risk carriers and intermediaries with consumers in three stages of the microinsurance product design and delivery process: firstly, the pre-contractual stage, secondly, the contractual stage and lastly, the stage of complaints-handling and dispute resolution. Section 142 of the Insurance Regulations provides the framework against the “unfair practices” whilst bearing in mind the microinsurance product design and delivery process as presented in Figure 12.

Figure 12: Microinsurance product design and delivery process



The FSC’s review of marketing material is designed to eliminate any deceptive practices. Marketing material is reviewed by the FSC during the registration process for life insurance products and the “*sui generis*” registration for microinsurance products. Given that it is not required that general insurance products are registered before offering them in the public, we believe that the review of the marketing materials is carried out by the FSC *ex post*. In addition, the FSC reviews marketing material on an on-going basis. Insurance companies and intermediaries must comply with the requirements established in Section 142 of the Insurance Regulation, Sections 32- 35 of the Consumer Protection Act, amended in 2012, and the Advertisements Regulation Act. In particular, the new Section 32 A of the Consumer

Protection Act provides that providers must ensure that every advertisement and contract is visible, legible and in simple and easily understandable language and sets out the terms and conditions of the contract or the advertisement. In addition to that, providers must *“take reasonable steps to bring those terms and conditions to the attention of its consumers”*. Section 142 of the Insurance Regulations highlights that insurers commit unfair practices when marketing materials and all tools used to circulate, publish or disseminate information to the public, misrepresents the benefits, advantages, conditions or terms of any policy; or presents insurers or the business of insurance in an untrue, deceptive or misleading manner.

Insurance companies and insurance intermediaries must display their registration certificates in their offices and branches. According to Section 19 of the Insurance Act, insurance companies must display its registration certificate at its principal office and at each of its branches in Jamaica in a place accessible to the general public. Otherwise, insurance companies will be liable to a penalty subject to a maximum of US\$ 5,750. In addition, any insurer displaying an invalid registration certificate or any copy is liable for a penalty not exceeding US\$ 34,500. Such penalty is also applicable to insurance intermediaries for similar offences according to Section 81 of the Insurance Act. In addition, Section 146 of the Insurance Act provides that an insurance company and insurance intermediary shall not knowingly, make or permit to be made any statement; or issue, or permit to be issued, any advertisement, statement, circular, descriptive booklet or other document which is misleading or likely to mislead the public, in relation to insurance business.

Insurance companies are under an obligation to ensure that policies provide fair value to policyholders and that they were developed as a product of sound business and financial practices. Pursuant Section 122 of the Insurance Regulations insurance companies must ensure that their products provide value to consumers. This provision can play an important role in the development of microinsurance as it suggests that FSC can require insurance companies to collect relevant data that will ensure appropriate evaluation based on measurable criteria, such as the key performance indicators, social and technical, for microinsurance developed by the Microinsurance Network (Sandmark 2012) (Wipf and Garand , Performance Indicators. Handbook for microinsurance practitioners (Second Edition) 2012).

Insurance companies and insurance intermediaries must provide all the necessary information to consumers. According to Section 18 of the Consumer Protection Act, providers of goods and services must provide in English all the information required by consumers orally or in writing. Section 147 of the Insurance Act notes that it is an offence to supply false and reckless information. In addition, Section 28 of the Consumer Protection Act highlights that *“no person shall, in the course of trade of business, engage in a conduct that is misleading or deceptive or is likely to mislead or deceive”*. When they engage in such practices, they will be liable to pay a fine of JMD 1Million or imprisonment for up to one year. Section 142 of the Insurance Regulations emphasise that it is an unfair practice to make false or fraudulent statements or representations on or relative to an application for a policy, for the purpose of obtaining a fee, commission, money or other benefit from any provider or individual person. In such perspective, information disclosed must be true, honest and transparent and reflect the real conditions of the product. This element is very important given that microinsurance consumers rely more on information disclosed orally than in written, therefore special attention must be paid to the compliance of this obligation by distribution channels.

If contractual documents that comply with the Insurance Act and the Insurance Regulations are delivered to the policyholder/the insured party, it is presumed that insurers have complied in full with their disclosure obligations. In order to ensure prior, free and informed consent, consumers must receive, in a timely manner, relevant information about their rights, obligations, any applicable procedures and deadlines, complaints-handling and dispute resolution¹²⁸. Generally this information is provided in the policy. Whether or not the policy wording complies with the Insurance Act and Regulations is assessed by the FSC ex-ante in respect of long-term insurance products, and ex-post for general life insurance business. The delivery of the policy/individual certificates proves that insurers have complied in full with their disclosure obligations. As indicated before, according to the new Section 32 A of the Consumer Protection Act, providers must ensure that contracts are visible, legible and in simple and easily understandable language. In the case of microinsurance policies (even general insurance), they are currently being reviewed by the FSC even though there is no special provision for that. Importantly, according to Section 32A of the Consumer Protection Act if there is a doubt as to the meaning of a term or condition of the contract, the most favourable interpretation for the consumer prevails.

Even though the regulations do not establish clearly which documents could be required to the policyholders when entering into insurance contracts, they are generally asked for their tax registration identification number to adhere to KYC requirements. This kind of request could have a negative impact in microinsurance. Even though such identification number is relatively easy to obtain, the informal population, which is the main target market of microinsurance, prefers to avoid registration which impedes their capacity to enter into an insurance contract.

Insurance companies are required to replace policies to policyholders and beneficiaries in the case that policies are lost or stolen, however applicants must prove their interest which means that the applicant incurs costs. Considering the economic limitations of the target market of microinsurance this provision could have a negative impact on microinsurance. The Insurance Act provides that insurance companies must provide policy replacement in the abovementioned cases, nonetheless the conditions to proceed with this replacement are not appropriate for the microinsurance target market, notably because of the requirements established to prove their interest and in addition because of the costs. Based on queries, two major Jamaican insurance companies would charge between 1,600-3,500 JMD to reissue the policy.

The individual certificate¹²⁹ provides a basis of what a simplified policy for microinsurance could look like. However, there is no guidance in the regulation about the content or the form of individual certificates. Policy requirements under the Insurance Act and the Insurance Regulations, can lead to long policies. The length of the policy document discourages consumers from reading and understanding it. In such context, individual certificates are being used in the most innovative ways in order to hand out a simplified document to consumers that will be easy to understand and use.

Insured parties are penalised if they do not comply fully with their disclosure obligations, consumers need to be aware of their obligations and sanctions for not complying with this obligations. In the case of a false statement and/or a failure to disclose relevant information in respect of the insured interest, the insurer can reduce or declare void its liability under the insurance contract. When there is mis-

¹²⁸ In addition, during our consultations, the FSC highlighted that Jamaicans are more aware about their rights.

¹²⁹ The contractual document received by the insured parties in the context of a group insurance policy.

statement of the age of person, the insurance company will be liable but premium could be increased and the insured amount could vary. Microinsurance consumers need to be made aware of their obligations that a microinsurance contract entails. For them as this could be the first insurance contract in their lives. In such perspective, microinsurance consumers could end up by not complying with these obligations, because they did not know that they had to comply with them and they did not know that stringent sanctions will apply in the case of non-compliance

There is broad recognition that a person can have an insurable interest in the life of another person. This could facilitate the take-up of life microinsurance products. According to Section 96 of the Insurance Act, specified persons are deemed to have an insurable interest in the life of another person. In particular, two provisions are relevant for microinsurance: an employer has an insurable interest in the life of an employee; and any person who has a pecuniary interest in the duration of the life of another person has an insurable interest in the life of that person. These present a clear opportunity for microinsurance, notably credit life insurance through group policies and, group policies covering employees.

In 2007 Jamaica introduced the use of digital signatures, however there is little knowledge about this possibility and it is rarely used. Generally, written signatures prove the provision of consent in insurance contracts. The Electronic Transaction Act allows the use of digital signatures; however electronic policies are still not regulated. Digital signature and electronic policies could reduce costs that are generally incurred when the contract is entered. The use of these tools could ensure that the subscription of the contract speeds up, costs are reduced and consumers are effectively protected.

Cooling-off periods are only applicable to life insurance, but not for nonlife insurance. There are some contradictions and lack of clarity in respect of the application of cooling-off periods to insurance products. This situation is caused by two regulations. From one side, the Insurance Act seems to recognise a cooling-off period for life insurance business, even though, no explicit reference to the term “cooling-off period” is made. Indeed, Section 110 of the Insurance Act provides that insurers must not enter into a contract in long-term business unless they provide the other party, a notice containing basic information relating to the contract and a form of notice of cancellation for use by the other party. In such cases, a person who has entered into an insurance contract may cancel such contract by serving written notice on the insurer not later than 10 days after receiving the notice from the insurer, or 10 days from the day on which they became aware that the contract has been entered into, whichever is the later. From the other side, the Section 28 of the Electronic Transactions Act (ET Act) provides a cooling-off period of 7 days to consumers purchasing goods and/or services “on-line” , nonetheless, insurance services are specifically excluded from the application of this cooling-off period. Based on this situation it is not clear why insurance products were excluded and what would be the situation where life insurance products are sold on-line. At this point, we are not aware of the nature of such exclusion and the possible impact on microinsurance products. Besides this debate, it is noteworthy that according to Section 130 of the Insurance Regulations, policyholders can terminate the contract at any time by written notice. This possibility is different to the cooling-off period, given that in the case of a termination, the contract existed (cover was provided while the contract existed, whereas when cooling-off periods apply, it is considered that the contract never existed (risks were never covered). In such context, the procedures to request the reimbursement of premiums paid are different in each case. There is no reference in the regulatory framework to cooling-off periods for nonlife insurance products.

Following regulation claims pay-outs must be made within 30 days. However, the relevant regulation, allows for extending this period that could result unduly long. Improving the enforcement of quick claims pay-outs will be key for the development of microinsurance. According to Section 133 of the Insurance Regulations, the beneficiary of a policy must give written notice of a claim by no later than 30 days from the date the claim arises¹³⁰, via registered post to the principal office of the insurer, or by delivering the notice in person, or by delivering it to [an agent of the insurer]. Then the claimant has 90 days from the date the claim arose (or the insured event took place) to provide proof “*as is reasonably possible*” to the insurer in relation to the loss. In addition, the insured or the beneficiary must provide such documents requested by the insurer to prove the loss “*as is reasonably possible*”. Importantly, “*reasonably possible*” is not defined and leaves a lot of room to arbitrary interpretations.

Preconditions for receiving the claims pay-outs will need to consider the target population. In addition, the Insurance Regulations set out the following preconditions for receiving pay-outs: in the case of accident or sickness, the claimant must allow the insurer to examine the person as much as is “*reasonably*” required; in the case of death, the insurer can request a post mortem; in the case of loss or damage, the claimant must provide the insurer with the opportunity to verify directly the loss. In addition to all of this the following matters also have to be settled: (i) the insured manages to prove the insured event occurred, (ii) the liability under the policy (and the amount payable as a result) must be agreed, (iii) whether the particular claimant has a right to receive the compensation (or whether it should be another party). The insurer must then pay out 30 days after all these issues have been settled.

Such requirements do not take into account the situation of microinsurance consumers and, seem excessive. Indeed, consumers may be unaware of these requirements, or may incur additional costs in attempting to comply with such requirements or may not receive timely pay-outs. Such events will lead to consumers questioning the real value of the product. In addition, there is room for arbitrary judgments by insurance companies in requesting, for example, copious or different documentation each time a claim is made. During our consultations, we found evidence of cases where insurers first provided a documents’ list and then, when they received such documents, proceeded to request further documents. Documentation (such as a birth certificate) can be extremely difficult for the low-income population to gather and in this particular case it took 2 months to gather all the requested documents. Documents such as the TRN and property deeds are difficult and sometimes impossible to obtain. In the first case, because segments of the target market of microinsurance want to avoid any possible tax implications, and in the second case, microinsurance clients often lack access to property deeds. In addition, in microinsurance there is a risk that distribution channels do not deliver proof of the claim on time to the insurer, and therefore it is essential to ensure that documents presented to distribution channels are deemed to be delivered to the insurer when delivered to the distribution channel.

Insurance companies must publish the details of policies when moneys have remained unclaimed for a period of 15 or more years, this practice could be positive for microinsurance as this is a mechanism to make sure that beneficiaries are aware that they are beneficiaries of an insurance policy. According to Section 115 of the Insurance Act, insurance companies must publish weekly for four consecutive weeks in a newspaper circulated in Jamaica a statement with all these moneys remained unclaimed for a period of 15 or more years. In the publication it needs to be indicated for each policy, the name of the person whose life is insured, the name of the policy owner, their last known addresses, the amount due and the date on which it became due. When the moneys are not claimed after such publication, the

¹³⁰ Insurers can provide claim forms 15 days after the beneficiary requested them.

moneys will become part of the revenues of Jamaica and must be paid by the insurer to the Accountant-General for payment into the Consolidated Fund, accompanied by a statement of account made in the prescribed form and approved by the FSC. We believe that the period of 15 years is too long.

Consumers have different venues to file their complaints (internally and externally) but there is lack of awareness and effective access to these venues. Consumers can file complaints directly to insurance companies, however there is no clear framework establishing the minimum requirements for the complaint-handling mechanisms that insurance companies adopt. Besides this, they can file their complaints externally to the FSC, the CAC and the Fair Trade Commission (FTC). Complaints-handling mechanisms with FSC and CAC are, in principle, easy and free to access for microinsurance consumers. However, the biggest problems are the lack of awareness of the target market about, not only the existence of these mechanisms, but also of the existence of the FSC and CAC; and also, the lack of access to these entities (i.e. distance, costs incurred to file complaints or attend hearings, etc.). The FTC is a body that aims to supervise the conduct of business in Jamaica in connection with matters falling within the provisions of the Fair Competition Act. Therefore, consumers can file complaints with the FTC against insurance companies when they believe that they are engaging in practices that are in contravention of the Act. In the particular case of microinsurance, such practices could deal with price discrimination, abuse of dominant position in the market, excessive and predatory pricing, cartels and misleading advertising. In such context, the FTC could play an important role in seeking to avoid situations such as distribution channels charging excessive commissions. This is common in other latitudes, and could take place in Jamaica if the microinsurance market grows more.

Alternative dispute resolution mechanisms are available, but consumers are rarely aware of them and face obstacles in accessing such mechanisms. Traditional Dispute Resolution (TDR) mechanisms are slow, due to lack of resources, and trials can be delayed for years. In such context, processes are extremely long and not appropriate for microinsurance; therefore Alternative Dispute Resolution (ADR) is a more suitable option in microinsurance. ADR is done through arbitration and mediation and is governed by the Arbitration Act. In addition, Section 44 of the Consumer Protection Act provides that parties may attempt to settle their conflicts through mediation through the CAC before taking the matter to the Consumer Protection Tribunal, recently created in 2012. The Consumer Protection Tribunal is an interesting option to solve disputes in a free and accessible way. Besides the option of the Consumer Protection Tribunal, disputes are resolved through alternative methods of arbitration and mediation with the help of the Dispute Resolution Foundation (DRF) and the Commercial Alternative Dispute Resolution Centre (CADRC). The DRF is a private voluntary foundation of Jamaica and was established in July 1994, in order to increase dispute resolutions between parties including business organizations, the police, the court, social service agencies and the people, through arbitrations and mediation. The key objectives of the DRF are: establishments of ADR techniques to resolve domestic, commercial, industrial, political and social disputes; creation of awareness among public to use ADR techniques for resolution of disputes; establishment of dispute resolution facilities in communities across Jamaica; and increase the use of mediation services by the legal profession to resolve disputes.

Generally disputes related to insurance contracts are solved through the DRF. IAJ works closely with them. The fact that users must pay a small fee to use the DRF could be prohibitive for microinsurance. In addition, the Private Sector Organization of Jamaica (PSOJ) engages CADRC to have speedy and fair resolution of disputes involving companies and consumers. The CADRC provides a cost effective and less time consuming method of dispute resolution as compared to the court procedures. This project is an

initiative of the private sector companies and is in its initial phase¹³¹. Jamaica does not have specific dispute resolution mechanisms for financial and/or insurance consumers, such as the financial or insurance ombudsman.

Currently the FSC is analysing the possibility of creating an ADR Complaint Resolution Process, this project has not yet been completed.

6 Findings

6.1.1 Context

The instability of the economic environment as Jamaica recovers from the recession has a direct impact on the disposable funds of the potential microinsurance clients. Jamaica is making strong efforts to recover from the global recession to ultimately reduce debt and revive the economy. In the recovery process, the financial sector is being reformed and the country is going through an adjustment period adapting to the new constraints.

The number of Jamaicans below the poverty line may be lower than first thought if different information gathering techniques are used. Extra income is common due to the large informal sector and this suggests more disposable income and therefore a larger microinsurance target market.

A large percentage of Jamaicans have formal bank accounts, yet other sources such as credit unions, building societies and MFI's, are heavily relied on for transactions, savings and loans offering potential distribution channels for microinsurance. Cooperatives, credit unions and associations have direct access to the informal sector and are considered the backbone for financial services and vocational activities of the lower income population suggesting a natural access channel for microinsurance. The growth of MFI's over the past 10 years has caused the MoFP to create an MFI Bill to start the road to stronger regulation. As MFI's have access to the target market, they can also be an access channel for microinsurance.

Few Jamaicans use technology for transactions and funds are preferred to be deposited at the bank teller. Therefore for microinsurance, premium collection mechanisms need to be found that the target population will use.

Remittances from the Jamaican Diaspora contributed 13.8% to the GDP in 2012. With this large amount of fund transfers, this reality needs to be considered when determining the target market for microinsurance. It is very common for Jamaicans to receive financial assistance from family living overseas. As a good part of the target population receives these funds, harnessing the usage of remittances to microinsurance products should be a channel to offer insurance to Jamaicans as long as AML requirements can be adhered to.

Jamaica is prone to catastrophic risks (hurricanes, earthquakes and floods), however, agriculture protection initiatives have not been successful suggesting a market is available for crop and livelihood

¹³¹ The three pillars of the CADR project are: a physical development wing to establish a facility for providing commercial arbitration services; a promotion and dissemination wing to generate demand for the services provided by the CADR and to create awareness about ADR mechanism among business leaders, professionals and public authorities related with or engaged in business.

protection. Banana and coffee insurance schemes sponsored by the government have both collapsed. This part of the agriculture sector is probably underinsured as far as weather events are concerned.

Pensions, social security and the extra healthcare (NIS) provided to supplement the public healthcare system do not provide much coverage for the target market suggesting that there is a market for private services. Even though NIS is mandatory for the employed population, only 40% of the employed population are contributing. This indicates a gap in health coverage as the informal sector most likely would not have this coverage and even though it is mandatory, 60% of the employed population does not have the NIS supplemental benefits.

A strong and consistent message in interviews with Jamaicans in all income levels is the impression that budget and quality constraints have been impeding the Jamaican Government to ensure quality universal health care. Microinsurance could play a complimentary role and it is essential to create awareness in the government and the industry about the benefits of these synergies. It may be beneficial to have health insurance schemes that create better access within the public system. For example, in India, a health microinsurance scheme exists where clients are put at the front of the line at hospitals and therefore long wait times are reduced.

6.1.2 Demand

With a large part of the population consuming insurance, the remaining sectors need to perceive strong tangibility of insurance. With a target market estimated at 3 million people, (including the Jamaican Diaspora), the diagnostic team estimates that 1.7 million policies or member certificates are owned by 1.3 million people in the defined microinsurance target population. In looking at the assets that the target market has, it is possible that there is disposable income available to increase usage of insurance but consumers need to see the importance of insurance and prioritise that need above others. The FG expresses the need for affordable (health) products with small coverage, but they say nothing is available for them. When considering products, it's important to the people that they receive something tangible for paying regular premiums.

Respondents say they are able to afford an average of US\$20 (JMD 2,000) per month for insurance, however for those with insurance, they are paying US\$35/JMD 3,500 per month (excluding mandatory auto insurance).

Respondents are concerned about policy value. There is a lack of understanding of the value of insurance and what the consequences would be if an uninsured event occurred.

FGD participants fear most being sick and unable to work as they associate this with a simultaneous loss of income and increase in health expenditure. As most of the FGD participants were breadwinners of their families, concern was expressed of how they would support their families if injury, serious illness (especially at work) or a weather event resulted in a loss of income. Weather events pose a large financial risk to households (property, agriculture, motor vehicles) depending on where they live, along with high funeral costs, unexpected illness and accidental death. Paying for funeral costs of a family member is also a big concern followed by losing a home or its contents to fire. Extravagant expensive funerals are part of the Jamaican culture, and participants appear to prefer a life insurance policy rather than a funeral policy.

Overall, the perception of the FG participants of insurance is fairly positive; however, negativity around insurance has been expressed. Among the negative experiences participants complained about were long waiting times and lower payments for motor vehicle claims, insurance claims' documentation is seen as complex (e.g. birth certificate for life insurance) and the quality of health services offered by the government is also associated with poor insurance products.

Insurance is not the preferred form of risk mitigation. Families, both in Jamaica and living abroad, supply funds when risk events occur. The Jamaican Diaspora is a very important coping mechanism for recovery from financial shocks and to support the elderly. Other common coping strategies are savings of any form, increasing income through additional jobs or trades and insurance.

There is a strong savings culture in Jamaica and this can pave the way for microinsurance, however financial literacy needs improvement in understanding insurance, the impact of interest and the long term value of money. People are used to saving. There is disposable income but it is not planned for risk management but rather for consumption. There is low financial literacy in Jamaica especially in terms of budgeting, paying bills on time, avoiding the use of credit to make ends meet and the concept of the time value of money. The level of understanding of insurance concepts is greater in urban areas than in rural areas as they are more exposed to advertisements.

There is a very low awareness of consumer protection mechanisms. Notwithstanding that one of FSC's directives is consumer protection and for microinsurance it is very important that clients are informed of where to turn if they have a complaint, participants had to think hard when asked about where they would go if they had a complaint or felt a company wasn't being fair. After much prodding, customer service reps at credit unions were mentioned along with the OUR (Utilities regulator) and phoning in to a radio talk show to air their displeasure.

6.1.3 Supply

The Jamaican insurance industry is an established part of the economy that has maintained growth despite a difficult economic environment. As at January 2014, there were nine operating nonlife and six life¹³² insurance companies. Mergers and acquisitions have reduced the number of insurance companies in recent years; however, as there are only two life companies offering health products, competition in the life sector is limited.

There are three insurance companies offering products that are intended to reach the target market with one company designing products specifically for the lower income population. The diagnostic team estimates that 1.7 million policies or member certificates are owned by 1.3 million people of the estimated to be 3 million target population that includes the Diaspora. Putting this into perspective, standard products available to all credit union members and an insurance product offered to loyal customers of a bill payment system make up 72% of these coverages. Insurance companies generally see microinsurance as a tool to target the unserved and underserved population as CSR. Some of them also see it as a financial opportunity as the market is untapped.

¹³² In Jamaica, health products (for the most part) are offered by life companies. Short term health products related to accidents can be offered by general companies.

Partnerships with global insurance companies are helping guide Jamaica's microinsurance market. Currently two out of the three insurance companies that are offering microinsurance products are using strategies gained through knowledge from their international affiliations.

Underwriting profits are occurring, however, the industry as a whole is experiencing an overall 2012 combined ratio of 115% and a high expense ratio of 46%. Industry net income ratios are at 31%, therefore investment income is supporting the industry. Since 2009 though, investment income ratios have decreased from 33% to 9% in 2012 causing industry management strategies to adapt.

The insurance industry, for the most part, has become stagnant in its product development and takes few steps to design products based on client needs. Only some companies are taking an innovative approach to product design by insuring individual items affordably.

Requesting documents that are difficult to obtain or generally avoided by the target market of microinsurance products, could operate as a dissuasive or disincentive for this population to enter into a microinsurance contract, and/or more importantly, to file claims. This is an industry practice based on regulation that has a negative impact on the development of microinsurance.

The life sector covers long-term life and health products and had 52% of the industry's gross premium in 2012 with universal life sales accounting for 89% of the new sales premium in the life market. Motor vehicle insurance is mandatory in Jamaica and comprises 23% of total industry sales; however, it is estimated that 25% of the vehicles are uninsured.

All insurance companies are part of the IAJ, which supports the potential for self-regulation in the industry to assist in the development of microinsurance. The participation of all insurance companies in IAJ provides a suitable environment for self-regulation and can facilitate the adoption of good practices consistent with the promotion of consumer protection. In addition, self-regulation of other entities that are or would be part of the microinsurance value chain could also facilitate and ensure consumer protection. IAJ and JAIFA could play an important role in terms of training of potential distribution channels.

Only insurance professional intermediaries (agents, insurance brokers and sale representatives) can sell insurance, however, group policies are used to bypass this regulation when used as alternative distribution channels. A group, association, friendly society, building society, bill payment facility etc. is the policy holder and they enrol their members in the policy. There is little regulation in regards to the enrolment process and protection for certificate holders.

Partnerships with government departments are emerging as another way to give insurance companies direct access to specific groups in the market.

Bill payment companies and the post office are used to facilitate payments and remittance outlets process a high volume of transactions from the Jamaican Diaspora. These transactional platforms are already reaching the target population so the potential to expand their services to microinsurance products is feasible.

Mobile money is not currently used as a transactional platform but it is possible this will change with the new guidelines issued by the BOJ.

With a population of 2.7 million, in order for Jamaica to reach scale and sustainability in microinsurance expanding the market outside of Jamaica may be essential. Jamaican insurers' potential market may soon expand as Jamaica is part of the Caribbean Community and Common Market which is in a revision process to allow more free movement of services across the region. The local conglomerates already have the infrastructure in place to reach the target market

The industry is learning about microinsurance. Initiatives have been developed in the past with varying degrees of success. Some have faced challenges of lack of payment of premiums and high claims ratios while others experienced an enthusiastic response that has encouraged them to pursue the market more. Investments of government and private actors have not been sustainable despite the targeted and long-standing efforts especially in the agricultural sector suggesting some learning is still needed around providing sustainable risk management tools.

6.1.4 Public Policy

The Jamaican Government considers insurance an important tool for managing risks of great impact in the country such as catastrophes, accidents and retirement. As mentioned above, currently, there is a growing interest in enforcing these schemes and insuring certain sectors of the population. Microinsurance fits very well in this proposition.

Some government entities are aiming to design and implement insurance strategies for certain sectors or segments of the population. These initiatives could end up opening channels to the captive demand of the microinsurance market. We consider as the captive demand of microinsurance, the cash transfer beneficiaries; the beneficiaries of the programs aiming to promote the SMME, the productive diaspora, the immigrants registered as such with the MLSS, amongst others.

The adoption of a national financial inclusion strategy is on the agenda. In this context, there is room to emphasize at a national and comprehensive level the importance of microinsurance in the broad concept of access to financial services by the unserved and underserved population.

Financial education is a priority for the Jamaican Government, and in particular for the FSC. In the FSC program, insurance is included, however it is important to enforce such programs and ensure coherence. FSC indicated that private companies had been promoting financial education; however, including the private sector with a unified voice from an impartial entity such as FSC would be more effective.

There is an important opportunity for microinsurance through Public Private Partnerships. There are several governmental programs, such as cash transfer programs, the promotion of productivity of MSME and the Jamaican Diaspora, where the offer of microinsurance products through PPP could fit very well.

6.1.5 Supervision

Dialogue and collaboration hardly exists between entities that oversee the activities of providers – both underwriters and delivery channels - of microinsurance products. The level of dialogue and cooperation between the supervisory authorities of different entities involved in the microinsurance value chain is not consistent and this could have a negative impact in the development of the microinsurance market and the protection of the microinsurance consumer, notably because some entities could end up by not being supervised when distributing microinsurance products, or could be over-supervised by entities that use different criteria to proceed with such oversight.

Insufficient data. The lack of detailed and easily accessible information about the insurance market and the regulation applicable to insurance may have a negative impact on microinsurance, given that keeping accurate and disaggregated data is essential in order to monitor the performance of the microinsurance market and take strategic action based on this data.

Given that the process to enact or change acts and regulations is slow, a myriad of ancillary regulatory tools have been adopted by the FSC, this practice is not appropriate for microinsurance. This practice has led to the adoption of several bulletins and guidelines. Such a situation does not promote transparency, clarity, and certainty amongst the industry and consumers.

The Insurance Act recognises that it will not be applicable to cooperatives, building societies, friendly societies -entities that are generally involved in the provision (offer and distribution) of microinsurance products- and it also recognises that non-admitted insurance companies offer insurance products, when similar products are not offered in the country. There is a possibility that these two provisions could be used to facilitate the offer and/or the distribution of microinsurance products. The lack of supervision in these cases leaves room for unfair practices.

Regulation in respect to how an insurer treats policyholders, is brief. This situation will have a negative impact on microinsurance as it is necessary to ensure that the regulatory framework aiming to protect microinsurance consumers is transparent and clear. Consequently, the microinsurance consumer will be treated fairly and will be empowered to take informed decisions, to effectively use the products. All of this will entail growth of trust of microinsurance products, providers and supervisory authorities.

Regulation requires to be adapted to the microinsurance market. The regulatory regime that is applicable to insurance activity is also applicable to microinsurance, but modifications might be necessary to be appropriate to the microinsurance market due to the different nature of the business, the different client type and the different risk involved.

Transparency concerns arise given that the FSC does not publish statistics on complaints of the insurance sector. These types of statistics ensure transparency and the adoption of fairer practices in the industry, in the case of microinsurance products, this information can ensure that end consumers make more informed decisions with the support of FSC and consumer associations.

The CAC could play an important role in advising microinsurance consumers during complaint-handling and dispute resolution processes. The CAC can also act on behalf of them.

6.1.6 Regulation

The top four regulatory obstacles that act as disincentives for risk carriers, distribution channels and transactional platforms are:

- (i) **Distribution.** The current applicable regulation only allows the distribution of insurance products through brokers, agents and sales representatives.
- (ii) **Product demarcation.** Strict demarcation of products between life and nonlife, where only long-term insurance companies can offer the first, and general insurance companies the second, could end up restricting an opportunity to tap the target market through bundled products.

- (iii) **Transactional platforms.** Currently, there is no regulation allowing the use of NBA, however the BOJ is currently studying the possibility to allow this. In terms of mobile banking the BOJ issued its guidelines. It is necessary to assess how they could impact microinsurance.
- (iv) **Lack of a common understanding about registration of microinsurance products.** Nonlife insurance products do not require prior approval from the FSC, whereas life insurance products do. Despite this, insurance companies offering microinsurance products (general and long term) prefer to register microinsurance products even though they are general microinsurance products, as they fear that the novelty of the products and channels used may attract scrutiny from the FSC.

The top four regulatory incentives present in the existing regulatory framework are:

- (i) **Digital signature is allowed by the regulation.** Even if the regulatory framework allows the use of digital signature the industry is not taking advantage of this possibility.
- (ii) **Opportunity for new risk carriers from the CARICOM.** Given that insurance companies incorporated in CARICOM countries are not considered to be “foreign companies”, they may find it easier to operate in Jamaica and offer microinsurance products.
- (iii) **The broad recognition that a person can have an insurable interest in the life of another person could facilitate the penetration of life microinsurance products.** The Insurance Act recognises that employers and any person who has a pecuniary interest in the duration of the life of another person has an insurable interest in the life of that person. By doing so, the regulation clarifies the possibility of entering into “third party insurance” contracts.
- (iv) **An important provision in the regulatory framework applicable to microinsurance that could play an important role for the development of responsible microinsurance: policies must provide fair value to policyholders.** Pursuant to the Insurance Act, insurance companies must ensure that policies provide fair value to policyholders; therefore the FSC can ensure that insurance companies make a special effort to provide microinsurance products which offer real value to consumers

The top nine regulatory provisions that have a negative impact on microinsurance consumers:

- (i) **A door is open for unsupervised insurance in the area of microinsurance.** The fact that the Insurance Act and Regulations provides that FSC can allow non-admitted insurance companies to offer insurance products, only when equivalent protection is not provided by registered insurers, could motivate non-admitted insurance companies to provide microinsurance products as equivalent protections are not generally provided by registered insurance companies. In other words, the exemption in the Insurance Act could increase the risk of having non-supervised and non-regulated entities acting as risk carriers of insurance products targeted to this segment of the population. However, we understand that the FSC has the discretion to prevent the undesirable entry of non-admitted insurers in the microinsurance market and ensure that consumers are effectively protected. Furthermore, the Insurance Act is not applicable to entities that are (and will be more) involved in the provision of microinsurance products, such as cooperatives, friendly societies, building societies, amongst others when the insurance-like products are below a certain threshold.

- (ii) Overuse of group insurance without clear rules protecting consumers.** Group insurance is currently used as a mechanism to overcome the restrictions of the distribution constraints. There is no specific regulation in respect of complying with disclosure and transparency obligations in group insurance, the content of individual certificates is not addressed through regulation and generally, individual certificates are not handed out to end consumers. There is evidence that consumers of group microinsurance policies are unaware of cover they have.
- (iii) Product approval is not required for nonlife insurance and compliance with regulation aiming to protect consumers is only analysed ex-post.** Whether or not the policy wording complies with the Insurance Act and Regulations is not assessed ex-post by the FSC in respect of nonlife insurance products, and weaknesses are only detected when products are already marketed.
- (iv) Weak enforcement of regulatory requirements for the insurance activity and contract in respect to how providers should treat consumers.**
- (v) The regulation on claims-handling processes is not entirely positive for microinsurance consumers.** The regulation leaves a lot of room for extending pay-out periods unduly, this could hinder the value of the microinsurance product for the consumer and could erode trust of new microinsurance consumers about insurance.
- (vi) Uncertainty about the application of cooling-off periods.** It is not clear why cooling-off periods are not applicable to insurance products according to the Electronic Transactions Act, and if the situation provided in Section 110 of the Insurance Act, is indeed a cooling off period.
- (vii) There are shortcomings in respect of access and awareness of complaints-handling and dispute resolution mechanisms.** Consumers have different venues to file complaints. However, microinsurance consumers are rarely aware about them or they do not have access to them. In addition, there is a risk of having overlapping forums and therefore creating confusion amongst consumers about the competent authority and the applicable processes in any given circumstance. Even if alternative dispute resolution mechanisms are available, they are not known by the target market of microinsurance and they confront financial and geographical obstacles in accessing such mechanisms.
- (viii) Exceptions in respect of AML and KYC requirements, such as the lower thresholds, could facilitate the take up of microinsurance products.** The application of these exceptions to microinsurance could help to reduce costs and improve speed of processes when microinsurance contracts are entered. Nonetheless, there is still uncertainty about the scope of these exceptions and its application to microinsurance.
- (ix) There is a wide range of legal and administrative instruments that compose the regulatory framework of the insurance activity, however these instruments are not easily accessible and there is room for contradiction between them. The instruments are also not adapted to the specific situation of the low-income segment.** This lack of clarity and certainty affects not only the industry, but also consumers.

7 Recommendations

The microinsurance market in Jamaica is nascent and in order to promote its development it is essential to: (i) confront the supervisory and regulatory obstacles we identified above in order to incentivise providers to offer microinsurance products responsibly¹³³; (ii) encourage providers to realise the potential of the microinsurance market to innovate and offer products with value; (iii) promote demand, (iv) but at the same time foster trust by protecting microinsurance consumers and making sure that they will be empowered to use the microinsurance products they purchase.

Bearing in mind that regulatory measures need to be consistent with the stage of development of the microinsurance market, this set of recommendations was carefully selected.

Firstly, we recommend the adoption of a **dedicated regulatory regime** aiming to promote the development of responsible inclusive insurance.

However, an enabling regulatory framework for the development of microinsurance market will not magically bring immediate development in the microinsurance market. Indeed, the insurance industry and the entities that are encouraged to act as distribution channels for this type of product need to realise the potential of this market, be innovative and adopt good practices in the design and delivery of microinsurance products. This requires a continuous process of capacity-building for the various stakeholders. In such perspective, this diagnostic also presents recommendations to the industry and distribution channels to improve their capacities as they enter into this market. The recommendations for the industry were presented in block in the cross-cutting tables in the Executive Summary.

Beyond enabling regulations, the government has an important role to promote the development of the microinsurance market, through the adoption of public policies encouraging the offer and the demand of microinsurance products. This notably is through the promotion of topics such as SMME, agriculture productivity, food security, and healthcare, amongst other issues.

The recommendations are presented in six sets: first we present the main elements of the proposed *“Regulatory Regime for the promotion of responsible inclusive insurance”*.

The second one presents a set of recommendations that are intended to open channels to facilitate the supply of microinsurance products with value to consumers in the country.

The third one provides tools to improve demand and take up of microinsurance products.

The fourth set provides tools to assist FSC’s transition into regulating and supervising the new inclusive insurance environment.

The fifth set presents options for a cohesive industry effort in implementing changes.

Finally, we present a comprehensive set of recommendations on consumer protection, which emphasise the measures proposed in the *“Regulatory regime for the promotion of responsible inclusive insurance”*

¹³³ This means providing products with real value for consumers and treating consumers fairly.

that relate to this component, but also include other measures that could ensure effective protection of microinsurance consumers and insurance consumers more generally. Indeed, consumer protection is a transversal topic that is mentioned in all the sections of recommendations, but in order to provide a clearer set of recommendations we decided to provide all the recommendations related to this topic in a single set.

7.1 Regulatory regime for responsible inclusive insurance

The objectives of the comprehensive regulatory regime for responsible inclusive insurance in Jamaica are to: (i) remove the regulatory barriers that are impeding the development of the responsible microinsurance market; (ii) introduce specific provisions that will promote that development by confronting shortcomings highlighted throughout this diagnostic; (iii) confront the distinctive risks posed by the microinsurance market; (iv) ensure regulatory clarity, transparency and certainty; and (v) promote a level playing field for all stakeholders seeking to serve the target market of the microinsurance market.

This regulatory regime will only apply to microinsurance products and it will be presented in a comprehensive set of regulations easy to find and accessible. It will incentivise the industry to register their insurance products as microinsurance products, but at the same time, will ensure that consumers are effectively protected when purchasing these particular products. From this perspective, the FSC should seek to avoid any possible regulatory arbitrage between this special regime and the regime applicable to conventional insurance, or any other regime that promotes access to insurance, such as mass insurance. This is important to bear in mind because in countries like Peru, the microinsurance regulation subsists with other regulations that promote access to insurance, such as the “mass insurance”¹³⁴ regulation. Unfortunately, regulatory arbitrage between such regulations is currently taking place. In Peru, the microinsurance regulation emphasises that microinsurance products are specifically targeted at the low-income population and that products must be designed to meet the needs of this target market, whereas the mass insurance regulation does not have any particular target market in mind. In practice, both regulations allow insurance companies to use different entities as distribution channels. However, insurance companies have preferred to register their products as mass insurance instead of microinsurance. The reason for this is that inadvertently, the mass insurance regulation is competing with the microinsurance regulation. As the former provides the same incentives as the microinsurance regulation, such as the possibility for using different entities as distribution channels, but it does not provide that insurance companies that offer mass insurance products must pay-out claims in 10 days, or must only include “minimum exclusions”. Given this, insurance companies are choosing the most favourable regime for them, being the mass insurance regulation (even though the products that they are offering are “microinsurance products”).

Bearing this example in mind, we recommend that the FSC analyses in detail the potential impact that future regulation could have on the regulatory regime for responsible inclusive insurance. Box 14 presents some input for the discussion around the differences between mass insurance and microinsurance.

¹³⁴ Mass insurance products are insurance products that are standardised, universal and do not require an analysis of the insuring conditions of each policyholder or insured party.

Box 14: Elements for a microinsurance regulation

Box 14: Elements for a microinsurance regulation -“Food for Thought”

In the discussion of identifying the characteristics of microinsurance that are different from mass insurance, we present a few points that may add to the discussion.

- The product is specifically designed for the target market.
- The product is accessible through distribution channels that easily reach the lower income market.
- Documentation is presented that proves the premium is affordable for the target population.
- Regulatory incentives exist for microinsurance products; however care must be taken so these incentives are not misused.

FSC’s Risk-based Supervisory Framework will need to be modified so it addresses risks particular to the microinsurance market. The FSC has in place a risk-based supervisory framework that enables supervisory staff to identify issues as they arise in relation to an insurance company’s prudential soundness and compliance with regulations. These issues are then prioritized for further examination during on-site examinations and off-site monitoring. The supervisory framework currently targets both prudential and market conduct problems. The introduction of microinsurance business to the Jamaican insurance market should be accompanied by a consideration of how to incorporate the risks related to microinsurance within the broader risk-based supervisory framework.

7.1.1 Adoption of a regulatory definition of microinsurance

The regulatory framework for responsible inclusive insurance requires a regulatory definition of microinsurance and will fulfil the following purposes:

- distinguish what is microinsurance from what it is not;
- develop a specific framework for a lower-risk category of insurance; and
- provide additional protection for a specific client group.

When defining microinsurance, supervisory authorities should clarify which elements need to be defined. According to the First IAIS-A2ii Expert Call (IAIS 2014), the elements to define include: (i) the general description of what microinsurance is; (ii) the intended client groups to be reached through microinsurance; (iii) what the business of microinsurance is; (iv) who can underwrite microinsurance; (v) who can act as an agent or distribution channel for microinsurance; (vi) what a microinsurance product is and (vii) what a microinsurance contract is.

The IAIS Application Paper on regulation and supervision supporting inclusive insurance markets (IAIS 2012) points out the following considerations when assessing such elements to define microinsurance:

- (i) Definition should focus on products and all insurers should be eligible to issue microinsurance products;
- (ii) Definitions that focus on microinsurance should clearly delineate microinsurance business from other business;
- (iii) Quantitative elements of definitions should be set at the highest possible level to ensure the defined product is as inclusive as possible; and

- (iv) Quantitative elements should consider the need to align the resulting business profiles with the expected proportional regulation and supervision

Supervisory authorities need to be very thorough when selecting a definition of microinsurance. Indeed, the selection of a definition of microinsurance is extremely important as appropriate definitions of microinsurance in regulation can facilitate innovation, proportionality, and access to insurance. Nonetheless, inappropriate definitions can have serious unintended consequences, such as restricting the scope for product innovation, creating an un-level playing field, increasing the level of risk, or providing opportunities for regulatory arbitrage.

Generally, regulators internationally have adopted two types of definitions, quantitative and/or qualitative definitions. Countries such as the Philippines, India, and Pakistan have adopted quantitative definitions, according to which microinsurance is determined by the cost of the premiums or the insured amounts. Other countries have adopted a qualitative approach, where microinsurance products are determined by the target population. In some cases, quantitative elements are considered in order to determine the target market population. Brazil is an example of this, where national socio-economic indicators are considered to determine who the microinsurance consumer is, and also the cost of the premium to qualify the products as microinsurance. However, other countries are more open, and do not set quantitative criteria, such as Peru, but instead, they establish certain characteristics that microinsurance products must have. One definition that is interesting, is the qualitative definition adopted in Ghana. The interest of this definition is it is more operational, as it is more based on characteristics of the product and how to objectively measure these characteristics of the product. The IAIS Application Paper on regulation and supervision supporting inclusive insurance markets suggests that a supervisory authority should avoid a narrower quantitative definition and rather recommends a wider qualitative definition (IAIS 2012).

In the particular case of Jamaica we propose an operational-qualitative definition that considers the requirements set out by the IAIS, and also, relies on the results of the first IAIS-A2ii Expert Call (IAIS 2014) Therefore, this definition should be focused on the product and refer generally to the consumer, similarly to the Ghana regulation.

In order to do so, we suggest that the FSC emphasises that the target market of the microinsurance products is the low-income population, but we insist that it should be highlighted that *“nothing prevents the purchase of a microinsurance product by a person that is not a low-income person”*, as it is the case in Ghana. Indeed, this regulatory regime for responsible inclusive insurance should focus to promote access to insurance by the low-income population, but cannot restrict access to insurance products to the unserved and underserved population who is not part of the low-income population.

In this context we propose the following definition¹³⁵:

- 1) The insurance contract must be designed and developed with the intention of meeting the needs of or marketed and sold to
 - i. Low income persons generally, or
 - ii. Specific types or descriptions of low income persons, or
 - iii. Low income persons in a particular geographical area

¹³⁵ We used as a basis the definition of microinsurance introduced by the Ghana Microinsurance Market Conduct Rules

- 2) The premiums charged must be affordable and the contract accessible for the target market for whom it is designed and developed.
- 3) Nothing prevents the purchase of a microinsurance contract by a person that is not a low-income person.

7.1.2 Remove access barriers for risk carriers

- **FSC could analyse if mutual insurance companies offering only microinsurance products could see their prudential requirements reduced.** Besides the insurance companies licensed by FSC that will be allowed to offer microinsurance products without requiring them to obtain any other license, we suggest that FSC considers the possibility of allowing mutual insurance companies to offer microinsurance products. Indeed, the Insurance Act and regulations allow “companies” and “mutual companies” to act as risk carriers. We suggest FSC analyses the possibility to adapt prudential requirements for mutual companies that offer microinsurance products based on the effective risk they are taking, however this requires regulatory capacity to license and supervise this new tier. The experience of the Microinsurance Mutual Benefit Association in the Philippines as a new tier could serve as a basis to approach this possibility.

7.1.3 Remove access barriers for distribution channels

- **The FSC should allow different entities to act as “microinsurance intermediaries”.** Potential distribution channels could be extended to include those organizations that currently act as a policyholder in a group policy and extend coverage to their members or employees. Financial institutions and formalized associations such as building societies, friendly societies, remittance companies, cambios, MFI’s, cooperatives, credit unions, PC Bank, money transfer services and bill payment companies could also act as intermediaries for microinsurance. Other formalized associations that have access to the target market that would be suitable channels include MSME Alliance, JAMFIN, agricultural product producers, taxi driver associations, Jamaica Employer’s Federation, the post office and more formalized partner schemes. Finally, NBAs could also be an effective channel.
- **Microinsurance intermediaries could be microinsurance marketers, microinsurance brokers, microinsurance agents and microinsurance sale representatives.** In this case the FSC could reduce the requirements, through a regulation, that are generally demanded to conventional brokers, agents and representatives. FSC could verify the probity and expertise of these microinsurance intermediaries based on more flexible mechanisms. Experiences in India and Brazil could help the FSC to understand how these requirements have been reduced around the world, in a way that consumers are still effectively protected.
 - **The regulations adopted by the FSC regarding new distribution channels, and the “microinsurance intermediaries” must emphasise that insurance companies are always liable for any wrongdoing of microinsurance marketers and/or microinsurance intermediaries.** FSC should ensure in the regulation that insurance companies are liable in all cases.

- **FSC should ensure through the regulation and supervision that payments made to distribution channels and/or microinsurance intermediaries, and claims registered with them are deemed to be made to insurance companies.** Transactions made by microinsurance consumers must be effectively secured, consumers cannot be responsible of bad practices of distribution channels and/or microinsurance intermediaries. The same apply for claims registered with distribution channels and/or microinsurance intermediaries.
- **FSC should ensure that data transferred by microinsurance consumers is effectively protected.** Even though Jamaica does not have yet a regulation regarding data protection, it is needed that in the specific regulation on microinsurance FSC ensures that data transferred by microinsurance consumers to distribution channels, microinsurance intermediaries and insurance companies is effectively protected and not disclosed to third parties unless consent is provided to do so.
- **Dialogue between and cooperation with the FSC and the other supervisors and self-regulation bodies of distribution channels must be encouraged through regulation.** The IAIS had been emphatic about the importance of dialogue between entities that oversight all the entities involved in the design and delivery of microinsurance products.
- **The FSC, BOJ and MoFP should work together to allow new distribution channels to participate as microinsurance intermediaries.** When allowing financial institutions and NBAs to participate as distribution channels it will be necessary for the FSC to liaise with the BOJ and the MoFP in order to ensure that regulations of these entities include provisions allowing them to act as distribution channels in microinsurance. Generally, the approach in similar cases, for instance in Guatemala with financial institutions that can act as marketers of mass insurance, a circular was issued from the Central Bank mentioning very briefly that some financial institutions were allowed to act as mass marketers. For instance, the new regulation of credit unions could include a provision allowing them to act as distribution channels of microinsurance products. However, one has to consider that it took more than 13 years to reach a regulation for credit unions and trying to include a new provision could be complicated.
- **BOJ, MoFP and DBJ should allow different kinds of transactional platforms such as mobile money, NBAs and remittances to participate in the design and delivery of microinsurance products.** By providing options to insurance companies in terms of transactional platforms, a dominant position of certain distribution channels, leading to excessive commissions, could be avoided. Indeed, unlocking services (such as premium collection and pay-out payments, amongst others) by allowing different entities to provide them could reduce the power of distribution channels.

7.1.4 Reduce costs and effectively protect the microinsurance consumer by speeding up and simplifying processes

- **Implement a fast track registration process (file and use) for microinsurance products for both life and nonlife products, where the microinsurance consumer is effectively protected.** This will reduce the costs of the insurance companies and will help them to have clarity about the applicable rules and to level the playing field. We recommend that this fast track registration process is

implemented only when FSC and the industry have more experience, or when standard products are developed. We suggest to the FSC to adopt a faster process of registration for “microinsurance pilots”. In such cases it would be necessary to define a “microinsurance pilot”, and we suggest using the size of the target market as an element to define this. In the case of microinsurance pilots, the documents required for the registration should be reduced, based on a risk-based approach.

Based on Ghana Microinsurance Market Conduct Rules, we suggest that registration of microinsurance products requires submission of the insurance contract, policy summary and a written record assessing why the product fits the microinsurance definition. The FSC should be open about the criteria used by insurance companies to prove that the product is actually a microinsurance product under the definition proposed, however, in order to ensure that products effectively target the low-income population the FSC could suggest that market studies identifying the needs of the target market of their products are carried out. In order to ensure a speedy registration process, it is suggested to reinforce the process of standardisation of certain clauses of the microinsurance contract, as set out in the following paragraph, and also, include a provision where a preliminary meeting of the presentation of the product will be held with the insurance company and the FSC.

- **Simplification of the policy for microinsurance products, but ensuring that necessary information for consumers about rights, obligations, applicable procedures, deadlines, complaints-handling and dispute resolution mechanisms will be disclosed in a simple and easy manner.** The contractual documents (policy and individual certificates) should ensure that consumers take informed decisions and use effectively microinsurance products. In such perspective, these documents must be handed over in all cases to policyholders or insured parties, depending on each case, and must use clear straightforward language that is easily understood by a low-income person or even, a new-comer to insurance. Therefore, FSC must emphasise that these documents must be handed over to policyholders or insured parties, and also, FSC must encourage the simplification of contractual documents. In this process of simplification, the individual certificate could be used as a model to determine the minimum content of the policy. However, it is essential to keep in mind that besides covers and exclusions, special reference must be made to: claims process and requirements should be clearly described, rights and obligations of policyholder, insured party and beneficiaries, complaints-handling and dispute resolution mechanisms. The FSC could gain insight into the simplification process by reviewing examples from other countries, and also by discussing with consumer associations and entities that serve the target market of microinsurance. This process of simplification should be accompanied by a process of identification of: (i) the most problematic clauses in order to encourage the standardisation of certain clauses, and (ii) the exclusions which are minimum depending on the product. In order to address this process of identification, we consider that regulation should be the last resort option, and instead we suggest to the FSC to encourage this process of identification in a forum that involves consumers associations and entities knowing consumers.

Make sure that AML/KYC requirements are proportional to the transactions involved in microinsurance. It is advised that FSC jointly with the other competent authorities analyse and confirm if currently there are threshold exceptions of AML and AML/KYC for insurance products of certain amounts, and if these thresholds could be applicable in the future regulation of microinsurance products. The FSC could consider experiences in other countries, such as the

Philippines, Colombia and El Salvador, where for insurance products that are under certain thresholds some exceptions are made in terms of complying with AML/KYC requirements. For instance, in Colombia for insurance products under a certain threshold it is not necessary to complete the AML/KYC questionnaire on the client when the insurance contract is entered into.

7.1.5 Enforce separate reporting obligations on microinsurance business

- **It is recommended that the FSC sets clear obligations to insurance companies to desegregate their data between conventional insurance and microinsurance and report separately on microinsurance to the FSC.** In this way, the FSC would be able to monitor the number of microinsurance products available in the country, number of microinsurance consumers, and the trends of the market. Separate reporting on certain critical ratios that make performance, sustainability and client value transparent, will allow the FSC and the industry to assess this business and its client value.

7.1.6 Reduce waiting period for unclaimed moneys

For the particular case of microinsurance, the period of 15 years to declare these moneys unclaimed should be reduced. With these unclaimed moneys, it is advised to create a fund to support the new FSC supervision tasks on microinsurance and its financial education efforts.

- It is advised that for the case of microinsurance products, the insurance companies must publish the details of the policies unclaimed in a shorter period –currently is 15 years-, for instance a similar period to the term of the statute limitation (prescription). The publication mechanisms must be adapted to the microinsurance target market.
- It is recommended that the moneys unclaimed in the hypothesis above will become part of a Microinsurance and Financial Education Fund that could provide the resources to FSC to improve their supervision capacity on microinsurance and to finance their financial education strategy.

7.2 Improving the supply of microinsurance products with real value to consumers

7.2.1 Improve the capacity of providers

- **Staff and management to identify and understand the challenges of microinsurance business.** Industry providers should receive training in microinsurance to ensure there is a depth of understanding at different organizational levels in regards to the strategic, technical and operational differences between traditional and microinsurance to implement practical modifications to current operations. The FSC should allow for the possibility of microinsurance certifications in their regulation and IAJ, College of Insurance and Professional Studies and JAIFA can be engaged in the provision of such training.
 - *Senior Management:* Understanding microinsurance needs to occur at the senior management levels to encourage buy-in to microinsurance and ensure proper strategic directions. At this level, understanding the business case for microinsurance is vital along with seeing international product and regulatory experiences. Mentorship programs with peers in other countries provide valuable long term support.

- *Actuarial Personnel:* Microinsurance product designs have different distribution systems, data available for inputs, margins, claims management, underwriting, expenses and policy documents than traditional insurance and this all impacts product pricing. In addition, product designs offer lower benefits for an affordable price while still providing value to the client. This is a balance that needs to be continually monitored. Industry training is recommended and the IAJ and College of Insurance and Professional Studies should be able to liaison with international organizations to organize these workshops.
- *Operational Levels:* Administrative processes, from registration to claims management, will have different requirements, focus and procedures for microinsurance products. It is important from a client service perspective that all internal departments understand the nuances of the business.
- **Microinsurance marketers and/or microinsurance agents and sale representatives, must receive appropriate, but proportional, training.** The IAJ and JAIFA could play an important role as providers of this training. They could create a specific course of training for microinsurance marketers and/or microinsurance agents and sale representatives, providing a certificate which will be valid for/accepted by the FSC.
- **Insurance providers should seek out quality distribution partnerships to reach the target market as group policies are currently the most effective distribution channel.** Exploring partnerships with employers, associations that access the target market, cooperatives and credit unions and MFI's to name a few is important to reach the target market. Criteria should be established that identifies the qualities of a good partner that is right for the organization and product as not all groups make a good microinsurance intermediary. Criteria for a good distribution partner are:
 - Organizational objectives that support the sale of microinsurance
 - Historic access to the target market and have established trust with its members
 - Strong financially, organizationally and administratively in order to take on and effectively carry out the extra responsibilities
 - Senior management supports the microinsurance partnership and expresses it as a priority to staff.
- **To ensure the integrity and quality of new channels for long term success we also recommend the industry:**
 - Improve capacity to deal with new types of channels. Insurance companies and IAJ must implement mechanisms to avoid deceptive practices. Mechanisms need to be in place to ensure that distribution channels comply with their disclosure obligations and do not have deceptive practices. Monitoring needs to be in place to evaluate customer service (cross-check calls to consumers), incentives of distribution channels and maintaining a blacklist of bad distribution channels.
 - Formulate criteria on how to maintain a successful partnership. Many international studies have explored this topic. Key elements include clear communication and outlining expectations in a Memorandum of Understanding (MOU).
 - Create capacity building. This is training for new and current intermediaries to assist in the distribution and administration of insurance along with an assessment of their capacity in regards to technology, information systems and the quality of data currently stored.

- **Research led by IAJ.** IAJ can assist the microinsurance development process by researching products and case studies of microinsurance schemes across the world and sharing them with the industry providing valuable information and speeding up the learning curve for those new to microinsurance. Creating partnerships with international companies experienced in microinsurance or establishing mentorships would help leverage local insurance companies.
- **Conduct market research to study in detail the needs and affordability of the target market and also conduct market studies to assist with product design for defined sectors (i.e.) agriculture, fishers.** It is essential to create products that have value and are affordable for the target market. Market research institutions can support these activities as they are familiar with the market.

7.2.2 Improve the offer of needed microinsurance products

- **Initial microinsurance product offerings from an organization just entering the microinsurance market should be simple and as more knowledge is gained, more complex products can be added.** As an organization is learning about microinsurance it is advisable to start with a simpler product¹³⁶. Current products that are offered to the low income population could be expanded and better meet the client's needs by adding enhancements. For example, one of the most common microinsurance products in the world is credit life as it is the easiest to implement and has a proven financial track record. Some providers have expanded to an enhanced credit life where the loan balance is not only covered, but also an insurance pay-out is made in the event of death of the borrower (or in some cases, the spouse's death also). So value is added without a large premium increase. Innovations such as this are strongly encouraged for the industry as a second step after introducing microinsurance.
- **Partner with those who know the needs of the clients.** Insurance companies should seek input and utilize the knowledge of all entities that work and know the needs and concerns of the target market of microinsurance. Therefore, they should liaise with cooperatives, credit unions, MFI's, brokers and agents to reach the target market. Through these kinds of partnerships, product development input is provided and demand side know-how is transferred.
- **Develop products for the microinsurance market that have a savings element.** The Jamaican market, based on sales, wants products with an insurance and savings component. Products such as these are tangible (as the focus group discussions revealed is a desirable product characteristic) so developing the product for the market's specific needs and affordability is an opportunity.
- **FSC can encourage insurance companies to offer products with real value to consumers.** Section 122 of the Insurance Regulations provides that insurance companies must offer products with value for policyholders. This Section could play an important role to ensure that FSC encourages the industry produce market studies analysing the needs of the target market of their products, gather relevant data and adopt technical and social performance indicators, to be able to monitor if

¹³⁶ For life companies, credit life is the simplest to implement. Implementation of products becomes progressively more difficult starting with term life then accident, savings life, endowment and finally, health insurance, which is the most difficult to implement. For nonlife companies, accident is the simplest to implement, followed by property insurance and finally, agriculture, which is the most difficult to implement. (adapted from Roth, McCord, Liber, 2007)

products offered are effectively providing real value to consumers and if not, that changes to the products are implemented. Even if monitoring does not magically entail client value, it provides the information necessary to adapt products to the needs of the consumers. True client value also entails insuring the high risks of clients that on their occurrence have a significant impact on their financial security.

- **Industry providers should improve their efficiency and be innovative to reduce expenses.** Lower expenses, through more efficient distribution channels, administration and claims processes can result in reduced premiums and ultimately create more affordable products. Microinsurance schemes throughout the world are challenged with making operations more efficient therefore reviewing examples from other global schemes is recommended. For example, in the MILK study, *“WIN WIN WIN - Profitability and client value along the life microinsurance value chain in the Philippines”* carried out by the Microinsurance Centre, a business case analysis is carried out on five life microinsurance companies in the Philippines and their expense ratios averaged 25% (28% when weighted by premiums per firm) from 2008 to 2012¹³⁷. The IAJ may be helpful with further research.

7.2.3 Adopt appropriate public policies

- **The government of Jamaica should integrate explicitly the offer of insurance products when adopting public policies and ensuring that they could be the basis of Public Private Partnerships (PPP).** As noted in the public policy section, different entities of the government of Jamaica have adopted public policies in different topics such as the promotion of SMME, remittances, increase of the productivity, increase of self-sufficiency in terms of food, disaster risk management, etc. The objectives of these public policies could be achieved in a sustainable way, through the introduction of the offer of insurance products. In this perspective, these public policies act as an enabling platform to create strategic partnerships between the insurance industry and public entities, such as the MLSS, the Ministry of Agriculture and Fisheries, MoFP, amongst others. Therefore, the Government of Jamaica should also encourage PPP and motivate insurance companies to participate in these kinds of partnerships. These kinds of initiatives bring a captive demand to insurance providers that governmental entities have through programs that aim to promote the aforementioned policies. The government should learn more about sustainable risk management approaches, including the industry perspective, as two out of the three agriculture initiatives are now defunct.

7.3 Improving demand and take-up

- **A financial inclusion strategy should be institutionalised, with coherence between all the entities that are involved in supporting the financial agenda on the same page. Microinsurance needs to be part of the financial inclusion strategy.** The FSC, BOJ, MoFP, DBJ, DCFS, and generally the Government of Jamaica should develop and institutionalise a national inclusion financial strategy where financial education and access to insurance will be an essential component. Firstly, these entities could create a Financial Inclusion Committee which also included representation from the industry. It is suggested that in order to promote access to insurance, the aforementioned entities analyse the possibility of adopting an “Inclusive Insurance Strategy” as part of the broader financial

¹³⁷ (Richard Koven, 2014)

national strategy. This Inclusive Insurance Strategy will ensure proper articulation between the “Regime for responsible inclusive insurance” proposed in section 7.1.; insurance industry stakeholders; governmental initiatives aiming to introduce the offer of insurance products in order to achieve in a sustainable manner public policies; the industry approach to move forward the agenda on microinsurance; and the measures proposed to effectively protect the microinsurance consumer.

- **Microinsurance logo or stamp.** In the context of the Inclusive Insurance Strategy, it is suggested that FSC adopt a branding mechanism to create awareness and recognition of microinsurance products. The level of appropriateness of the branding approach in Jamaica needs to consider the mind-set of the microinsurance target market and how receptive they would be to this type of branding. In a first stage it is suggested that the microinsurance logo does not guarantee quality, but just affordability and simplicity. In a second stage, when FSC and the industry will be able to assess the quality of the microinsurance products in terms of client value through KPI and the microinsurance market will be more developed, it could be interesting to analyse the possibility of using the branding as a way to praise good products available in the market. Experiences in Ghana and the Philippines regarding the use of the Microinsurance Logo or Stamp could provide some guidance to the Financial Inclusion Committee.
- **Financial education should be an important component of this financial inclusion strategy and requires the involvement of a myriad of entities from the public and private sector.** A national financial education strategy should be integrated in the financial inclusion strategy. When doing so, cohesion between all existent efforts is needed and strategies must be tested, monitored and impact must be assessed. In terms of financing it is worth exploring if the policy moneys that have remained unclaimed for the prescribed period could be used to support financial education strategies. As FSC has the mandate to make regulations and provisions pursuant to Section 144.1(h) of the Insurance Act, which pertains to these unclaimed funds, there is a possibility that the initiative could be funded through a provision regarding this section. It is highlighted the importance of adopting strategies that involve the insurance industry, notably through the IAJ, which may facilitate industry wide initiatives. In all this process it is important to consider the distinctions between financial education and marketing of specific microinsurance products.
- **The government should increase the regulations around mandatory products that will ensure quality, fairness to customer and product value.** The Government of Jamaica should increase awareness of the importance of risk management strategies, notably in contexts of disasters and the possibility of recognising mandatory insurance for risks such as earthquake. Initiatives such as the introduction of mandatory life insurance for fishermen through the Fishers Act that will be in place soon are welcomed. In addition, to ensure strong mandatory products, the industry would need to provide clear and easily understood product explanations to clients.
- **Confront the lack of disposable income available to Jamaicans with initiatives that link the Jamaican Diaspora to purchase microinsurance products.** Tapping into the Jamaican Diaspora is already occurring as NHT has an overseas contributions program and the Ministry of Foreign Affairs is linking the Jamaican diaspora to bond purchases to utilize this source of funds. With a potential outreach of 1 million people and product precedence from countries such as El Salvador using their Diaspora to purchase microinsurance, this is a real possibility for Jamaica.

- **Promote trust in order to increase take-up.** Consumers need to see that the promise of microinsurance is delivered. Therefore they must see value in purchased microinsurance products and must be treated fairly. These two elements are essential to strengthen trust in microinsurance providers and change negative perceptions. These two elements must be considered with special attention in credit life insurance, given that this product is sometimes the first point of contact of the target market of microinsurance with microinsurance products. In order to ensure this, it is essential to manage the expectations of microinsurance consumers by explaining to them in a transparent way not only the benefits of the products, but also the risks that are not covered. For example, for group policies, other countries have provided product and insurance awareness at regular group meetings to improve understanding of the coverage, benefits or process. This continual contact establishes trust and a higher degree of knowledge about insurance specifics that is invaluable for take up. These sessions can also be used to highlight any immediate customer issues. In addition, it is important to adopt appropriate practices, such as the adoption of short pay-out deadlines, handling claims with care, assisting clients in the process of complaints-handling and dispute resolution processes, etc. All these elements will be presented in more detail in section 7.6.

7.4 Capacity building on microinsurance for FSC

As regulating and supervising microinsurance is different from traditional insurance, support to help FSC navigate the new insurance environment is recommended.

- **Be an active member of the financial inclusion strategy.**
- **Lead a cohesive industry effort** and summon all entities involved in the design and delivery of microinsurance products.
- **Develop a capacity building plan** for FSC staff related to “inclusive insurance”.
- **Form an FSC internal committee** as a learning platform.
- **FSC and FTC must pay special attention to possible practices of distribution channels and/or microinsurance intermediaries that could be assimilated to abuse of a dominant position in the market or excessive and predatory pricing.** Instead of capping commissions of microinsurance distribution channels through regulation, we suggest exploring other options that could reduce the possibility of excessive pricing of commissions as a consequence of “abuse of dominant position”. Amongst these options we suggest:
 - Allowing a broad number and type of entities to operate as distribution channels in order to promote more competition in the market.
 - Promote the use of transactional platforms (see below).
 - Increase dialogue about alternatives to fight against such practices.
- **Leverage funding** for capacity building within FSC As part of the regulatory roadmap, ask for assistance to formulate a proposal to request funding from FIRST Initiative; which is part of World Bank and offers short term Technical Assistance grants to strengthen financial sectors and build more inclusive financial systems.
- **Foster peer exchange** among supervisors. Organize visits to supervisors in other countries that have faced similar issues provides practical and valuable insights. Host a regional dialogue among supervisors on regulatory frameworks for inclusive insurance

- **Participate in international and regional forums and training** such as the IAIS-Microinsurance Network Consultative Forum or the Munich Re Foundation/ Microinsurance Network Annual Conference *Nov. 2014 Mexico or the IAIS/A2ii monthly discussion forum. The IAIS/A2ii monthly tele-discussion forum held with other supervisors in March 2014 was dedicated to topic of the definition of Microinsurance. Technical experts provided a framework around establishing a definition and representatives from different supervisors around the world gave examples of their regimes. IAIS also has a self-assessment tool for regulators called Toolkit 3: Self-assessment and Peer Review on Regulation and Supervision supporting Inclusive Insurance Markets¹³⁸ which is designed to review the supportiveness of the supervisor’s jurisdiction to the cause of enhancing inclusive insurance markets.
- **Leverage funding** for donor support for microinsurance industry development.

7.5 Improving an efficient microinsurance market through a cohesive industry effort

- We recommend FSC set up a platform to bring private stakeholders from across the value chain, policymakers and authorities together to agree on an agenda and pursue joint activities for microinsurance development¹³⁹. An option is that this platform can be provided by a Microinsurance Committee. Based on experiences throughout the world, Appendix 4 outlines tasks that the Microinsurance Committee could focus on and good practices of such a committee.
- The FSC should encourage the debate about the adoption of performance and social indicators for microinsurance business. The indicators developed could be adopted through regulation in the future, as it was the case in the Philippines and they could serve as a potential future tool where insurance companies are ranked based on their performance, helping consumers (policyholders and insured parties) to assess insurers and products.

7.6 Protect microinsurance consumers effectively

In sections 7.1 and 7.5 we have been presenting recommendations that not only aim to promote the development of the microinsurance market, but to promote it in a responsible way. In order to ensure that the development of the microinsurance market is responsible, it is necessary to ensure that consumers are effectively protected and empowered in order to use the products that they purchase and that these products have real value for them. Indeed, empowered consumers can effectively use insurance products purchased, increasing trust and therefore take-up of microinsurance products.

Indeed, *“owing to poverty, the microinsurance consumer typically lacks the essential capabilities required to provide free and informed consent to enter into, to perform and demand the performance of, the insurance contract and to complain and seek remedies in appropriate forums”* (Camargo , Protection of the microinsurance consumer: confronting the impact of poverty on contractual relationships 2012). In such perspective, it is important to make sure that microinsurance consumers are effectively protected, otherwise they would find it extremely difficult to use products, and therefore receive any value of the products that they are purchasing or that a third party is purchasing for them. In such

¹³⁸ (A2ii n.d.)

¹³⁹ This section discussing the microinsurance committee is adapted from *“The Access to Insurance Initiatives Toolkit IV: Country-level microinsurance development process: operationalising the action plan* (Hougaard 2013)

context, all participants in the microinsurance value chain need to encourage stronger governance and best practices. FSC should ensure the compliance of the Insurance Core Principle 19, through the adoption of appropriate regulatory measures, but also FSC should consider the need to have the support of the industry, notably through the adoption of good practices that could facilitate self-regulation. Pursuant ICP 19, supervisors must set requirements for the conduct of the business of insurance to ensure that consumers are “*treated fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied*”. Having said that, microinsurance consumers need to be treated fairly during all the seven steps of the insurance process, which according to the Discussion paper consumer protection in microinsurance of the Consumer Protection Task of the Microinsurance Network are the following (BMZ, MIN & GIZ 2012):

- (i) Obtain information about risks and risk management options
- (ii) Choose a product
- (iii) Chose a provider
- (iv) Purchase the policy
- (v) Maintain and renew policies
- (vi) Make a claim
- (vii) File complaints in needed

Taking into consideration the importance of ensuring consumer protection throughout all the insurance process, we have proposed, and we will propose, several recommendations to the supervisory and regulatory authorities, the insurance industry, the entities that we propose could play a role in the distribution of microinsurance, in order to ensure that consumers are effectively protected.

Firstly, FSC should map any exception regimes in order to be able to measure the risk that these providers pose for financial stability and consumer protection. It is essential that the FSC maps the insurance coverage provided under Sections 3(5), 20 and 145 of the Insurance Act. Notably, insurance coverage provided by cooperatives, friendly societies, to trade associations, student loans, the agriculture sector, institutional insurance and any other exceptions that have been granted by FSC. The FSC should pay particular attention to consumer protection, given that the aforementioned insurance regulations would not apply to such non-admitted insurance companies and the Act provides that “*For the avoidance of doubt it is hereby declared that, the Commission, by granting permission under subsection (2), does not assume any liability towards the applicant in relation to insurance contract concerned or its placement*”.

Secondly, it is essential to institutionalise a national strategy of financial education as part of the institutionalisation of the financial inclusion strategy. Insurance must be an essential component of the financial inclusion strategy. In such perspective, financial education programs will provide general information which is essential for (potential) consumers to be aware of the value of insurance as a risk management strategy (information that sometimes is not provided by providers even though they are obliged to), and to effectively use insurance products. Amongst this information we can mention the applicable processes, the identification of the supervisory authority in charge, rights and obligations, etc. In particular it is important to provide advice about the importance of reading the contractual documents and asking questions about the insurance product.

Thirdly, we recommended the adoption of measures that aim to ensure that consumers receive transparent, complete and timely information about the products they purchase (marketing materials and contractual documents). FSC must ensure that this information is not limited to the covers, but also must include information about their rights, obligations, claims processes, and the available mechanisms to register complaints and settle disputes that could arise in relation to the insurance contract. In such context we highlighted the importance of simplifying policies but ensuring that needed information is provided in these simplified policies. Also, we proposed that the industry should move forward the agenda in relation to the standardisation of certain problematic clauses and banning some wording that could confuse the microinsurance consumer. In addition, we hereby recommend that the FSC should encourage the CAC to provide information to microinsurance consumers about their rights and obligations, and also help the microinsurance consumers to effectively choose the most suitable products and providers available in the market. CAC has the knowledge and expertise on these issues, and has contact with the target market, for instance through radio programs, where such awareness could be raised. Indeed, ensuring that consumers are aware of the rights and obligations will lead to consumers that comply with their obligations, ensuring the adoption of effectively use microinsurance products. CAC can also support consumers to choose the best products and the best providers, by sharing with them rankings of providers based on complaint-handling statistics, and lists of available products in the market. It is suggested to recognise cooling-off periods for insurance products sold through distant-selling.

Fourthly, FSC should ensure that consumers are aware of the existence and conditions of group insurance policies. Certainly, group insurance is now the preferred way to distribute microinsurance products, and once a regulation on microinsurance will be in place, group insurance will also play an important role. In such perspective, the FSC should make sure that “insured parties” are aware of the insurance products purchased through cooperatives, friendly societies and building societies and how to use them. This requires a stronger position about the delivery of individual certificates to end consumers where all the necessary information is provided. Therefore, we suggest that a particular provision regarding the handing over of individual certificates to insured parties of microinsurance products would be adopted.

Fifthly, we noted the importance that distribution channels and/or microinsurance intermediaries disclose all the relevant information fully, in a transparent and timely manner, and treat microinsurance consumers fairly. We recommended to the industry to implement mechanisms, such as customer surveys, evaluation of incentives of distribution channels, cross-check calls to consumers, blacklist of bad distribution channels, to ensure that these distribution channels and/or microinsurance intermediaries are monitored and deceptive and unfair practices are sanctioned and proscribed. In this vein, we highlighted the importance that insurance companies are always liable for any wrongdoing of their distribution channels or/and microinsurance intermediaries. In addition, we noted that every transfer made to the insurance companies through distribution channels and/or microinsurance intermediaries is considered made directly to the insurance companies. Importantly, we referred to the need of ensuring that privacy is respected, therefore, we recommended that FSC makes sure that insurance companies protect data (client/policy data) shared with distribution channels.

Sixthly, Insurers should adopt better practices in order to promote trust on microinsurance market, such as: adopting shorter claims handling and pay-out deadlines, ensuring that claims-handling processes are accessible and adapted to the microinsurance consumer, that documents requested are

not excessive and accessible, and that microinsurance consumers are aware about the acceptance or rejection to their claim, and the next steps for each case. We consider that even if the regulation could adopt a shorter pay-out period for microinsurance, it is suggested that this issue be tackled first through self-regulation of the industry and its implications should be discussed with all the stakeholders involved in the design and delivery of microinsurance products. It is necessary to ensure a true “reasonability” of requested documents to support the claim from the insurance companies. The insurance industry must analyse the need to avoid the request of formal documentation (some don’t have TRN numbers, drivers licence) for microinsurance when entering into the contract and when filing claims. Through codes of conduct in microinsurance, agreements can be reached on which documents are necessary and easily obtained by the target population, and also to ensure that claims handling processes are effectively accessible for the microinsurance consumers.

Seventhly, through regulation the FSC must clarify requirements for internal complaints-handling mechanisms in insurance ensuring that they are accessible and affordable. Such recommendation is not only for microinsurance products, but all insurance products. Amongst these requirements it is necessary to ensure that timeframes of decision of complaints handling are short, accessible and affordable. FSC should ensure clarity about the benefits of each one, enforcing limited forum shopping. FSC should ensure transparency through requiring reporting from insurance companies of their complaint-handling statistics, compiling such information and making it publicly available. Therefore, the FSC should analyse and publish statistics on complaints-handling mechanisms. In particular it is recommended that these statistics are shared with the CAC, entity that can disseminate in a simple way (easy to understand) the result of such statistics and help consumers to provide better informed decisions. It is suggested to adopt this recommendation in a general regulation, ensuring that the requirements on complaints-handling mechanisms are required to all insurance business, not only to microinsurance. This is an important issue to consider, because if the requirement is applicable only to microinsurance products, such a requirement could end up by being a disincentive for the industry to register their products as microinsurance. It is noteworthy that the reports provided to the industry to FSC, and the statistics to be published by FSC, should have the data disaggregated by conventional insurance and microinsurance.

Eighthly, FSC must ensure that dispute resolution mechanisms will be accessible and affordable for the low-income population. It is recommended that FSC ensures that the dispute resolution mechanism that is currently being designed for insurance products would be accessible and affordable to microinsurance consumers. In the same perspective, we recommend that the FSC takes into consideration all the obstacles of access to justice confronted by the target market of microinsurance. In addition, we recommend that FSC takes into consideration ADR mechanisms such as conciliation and mediation. Furthermore, it is recommended to FSC, IAJ, jointly with the CAC and the FTC, to analyse the possibility of creating an independent insurance ombudsman or a body that would act as insurance ombudsman. In order to do so, it is highlighted the need to ensure impartiality and objectivity, therefore it is important to guarantee that the insurance ombudsman would not be confronted with potential conflict of interests that could affect microinsurance consumers. This could be the case in situations where the insurance ombudsman is financed by the insurance industry, or all the members of the body are selected by the industry. If this is the case, it is advisable to find mechanisms to ensure independence, for instance through the adoption of democratic mechanisms to appoint the ombudsman or the members of the body; or to ensure that the insurance ombudsman is financed by an independent source.

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Annex I- List of interviews

Access Financial

Advantage General

Agricultural Credit Board

Banana Board

Bank of Jamaica

CCRIF

CFMG/Cuna Mutual

Coconut Industry Board

College of Insurance and Professional Studies

Consumer Affairs Commission

Department of Co-operatives and Friendly Societies (DCFS) Jamaica

Development Bank of Jamaica

Digicel Jamaica

Financial Services Commission

Grace Kennedy Money Services

Guardian Group - Guardian Holding Limited (GHL)

Insurance Association of Jamaica (IAJ)

Jamaica Association for Micro-Financing

Jamaica Cooperative Credit Union League

Jamaica Co-operatives Insurance Agency

Jamaica Insurance Brokers Association

Jamaica International Insurance Company

Jamaica National Life Insurance

JN Small Business Loans

Ministry of Agriculture and Fisheries of Jamaica

Ministry of Finance (MOF) Jamaica

Ministry of Health (MOH) Jamaica

Ministry of Labour and Social Security of Jamaica

MSME Alliance

National People's Cooperative Bank of Jamaica

National Union of Co-operative Societies Limited (NUCS)

Office of Utilities Regulation

Post Office - Central Sorting Office

Sagicor Life Jamaica Limited

Scotia Jamaica Life Insurance

Self Start Fund

Swiss Re

TIP Friendly Society

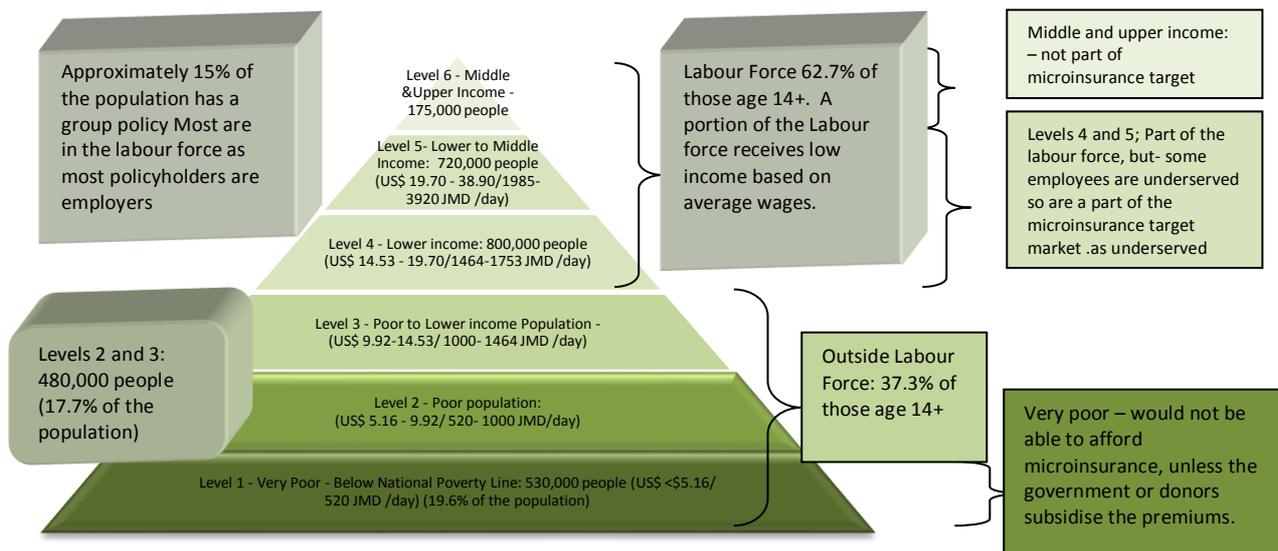
University of the West Indies - Mona campus

Victoria Mutual Building Society

Annex 2: Context Section

1 Development of Jamaican population income segmentation chart¹⁴⁰

Figure 13: Income segmentation and microinsurance in Jamaica¹⁴¹



At October 2013, the labour force¹⁴², as reported by the Statistical Institute of Jamaica (STATIN), was 62.7% of all persons aged 14 and over. With the balance (37.3%) of those over age 14 years categorized as outside of the labour force.¹⁴³ We estimate that those outside the labour force are part of levels 1 to 3 in Figure 1 with levels 2 and 3 representing the immediate microinsurance

¹⁴⁰ These are estimates only and the values do have a margin of error. Exchange rates use the average 2013 rate from BOJ of 100.77, except for the 1753JMD converted to US\$19.70 in level 4 and level 5 which used the 2012 rate of 89 as this was a US value from 2012 representing GNI/capita.

¹⁴¹ In comparing 2008 and 2009 poverty line data (Luton 2009) with minimum wages (Henry-Lee 2012), a National poverty line (Level 1) was estimated for 2013 using 2013 minimum wages (Cunningham 2013). Level 3 uses the 2013 minimum wage and Security guard wages (a common benchmark in Jamaica) as limits. Level 4's top threshold is the 2012 GNI per capita of 5120/yr US (Data, Jamaica n.d.), while Level 5's lower range is defined as the GNI per capita and the upper limit is the average weekly wage at a large establishment. (STATIN n.d.). 2013 wages were used for the tiers if possible to be consistent with the STATIN labour force data.

¹⁴² The labour force, for this purpose is defined by STATIN and includes 17 industry groups that include formal categories and some industries typically considered as informal such as agriculture, fisheries and private households with employed persons. Outside labour force includes workers outside of these industries, those aged 65+ and stay at home persons. (Statistical Institute of Jamaica n.d.).

¹⁴³ Tiers were developed using STATIN labour force/outside labour force numbers and then increased to represent the entire population. Income by occupation was split by average income earned by wage earners and salaried workers to allocate those workers to appropriate tiers. Those under age 14 are assumed to be allocated proportionately when considering the entire population of Jamaica.

market, which is 17.7% of the Jamaican population¹⁴⁴. The underserved population (levels 4 and 5)¹⁴⁵ is typically those who do not have access to a group policy through associations or employers.¹⁴⁶

2 MSME Definitions

The MSME segment has been recognized as an important part of the economy. DBJ and the Ministry of Industry, Investment and Commerce have formal definitions of the segment. The definitions are similar, however it is important to be aware of which definitions is being used in different scenarios.

Table 15: Development Bank of Jamaica MSME Definitions¹⁴⁷

Enterprise	Asset Base (US\$)	Annual Turnover US\$	Employment
Micro	<\$10,000	<\$125,000	1-10 persons
Small	\$10,000-\$100,000	\$125,000- 1 million	Up to 50 persons
Medium	\$100,000-\$200,000	1million – 4 million	Up to 150 persons
Mature	>\$200,000	>4 million	>250 persons
Small Hotels (10-100 rooms)		\$4 million	Up to 150

Table 16: Ministry of Industry, Investment and Commerce MSME Definition¹⁴⁸

Firm Size	Number of Employees	Total Annual Sales/Turnover (JMD)	Total Sales/Turnover US\$ ¹⁴⁹	Annual (2013)
Micro	<5 persons	<10 million	\$100,170	
Small	6-20 persons	10-50 million	\$500,851	
Medium Sized	21-50 persons	50-100 million	\$1,502,554	

3 Distribution of Economic Activities and Labour Force

Jamaica is highly dependent on the service industry as it comprises 64% of both GDP and the labour force¹⁵⁰.

¹⁴⁴ PIOJ, STATIN, CIA World Factbook and World Bank indicate the poverty rate is 17.6-19.6% while the IMF calculates the rate at 43.1%. To be consistent in sources of estimates, STATIN's poverty rate was used. Member counts from cooperatives, credit unions and PC Bank provided an independent check to the approximation. Levels 1,2,3: Outside labour force (37.3%) minus Level 1: Below poverty line (19.6%) = 17.7% in levels 2 and 3

¹⁴⁵ Levels were allocated based on wage information from STATIN. When no wage information was available, using judgment, the industry was placed into the highest category they may fall into; so in reality, lower categories may be in fact, more populated. Level 4 includes: Agriculture, retail, wholesale, mechanics, private households, unclassified industries and those paid hourly in the manufacturing sector. Level 5 includes: Trade, hotels and community, social and personal services workers, real estate, public administration and defence, education, health and social work, hourly wage earners in the transport, construction and financing industries and salaried workers in the manufacturing sector.

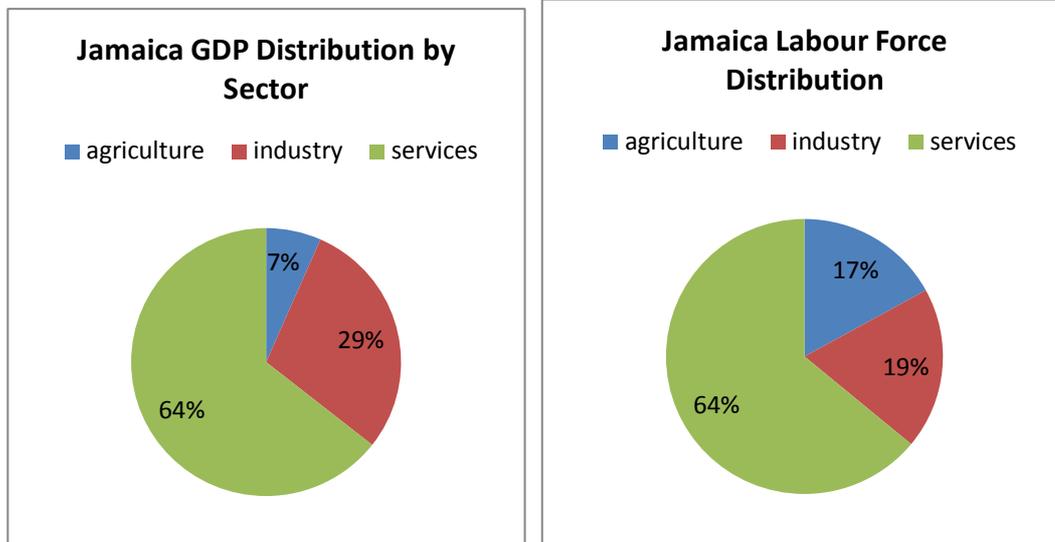
¹⁴⁶ Using the estimate that 85% of the population do not have health policies and that the majority are group policies, an extrapolation to the formal sector (where most group policies exist) was made with some adjustments. Estimates from company interviews of the untapped group market helped develop the approximation.

¹⁴⁷ (Development Bank of Jamaica n.d.)

¹⁴⁸ (Ministry of Industry, Investment and Commerce 2013)

¹⁴⁹ 99.83 JMD per US dollar (Jamaica n.d.)

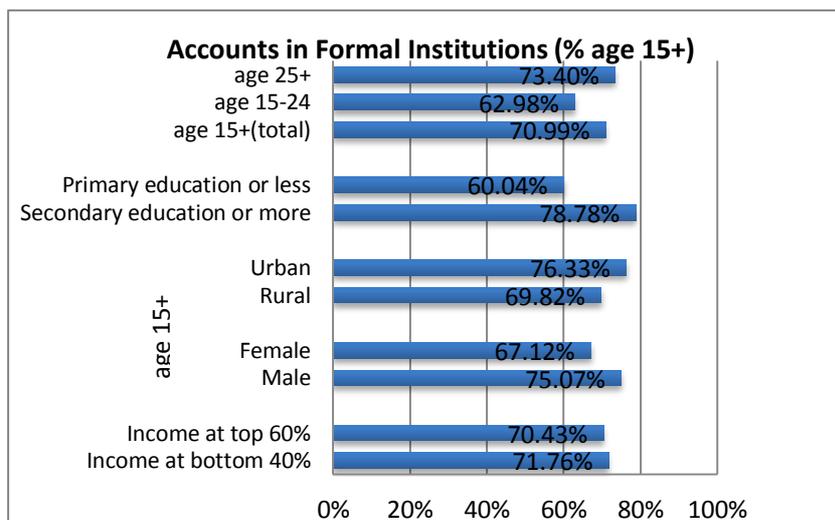
¹⁵⁰ For this statistic from CIA World Factbook, the labour force is defined as those in the formal sector, the official unemployed and those looking for a job in the formal sector.



Source: (Central Intelligence Agency n.d.)

4 Distribution of those with Accounts in Formal Institutions

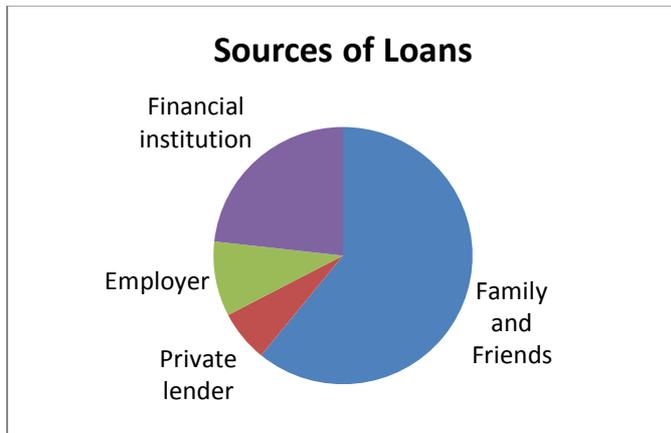
Of those aged 15+, 71% have accounts in formal institutions. This percentage is fairly consistently through different demographic distributions, except in the category of those with a primary education or less where 60% have an account at a formal financial institution.



Source:(Klapper 2012)

5 Sources of Loans

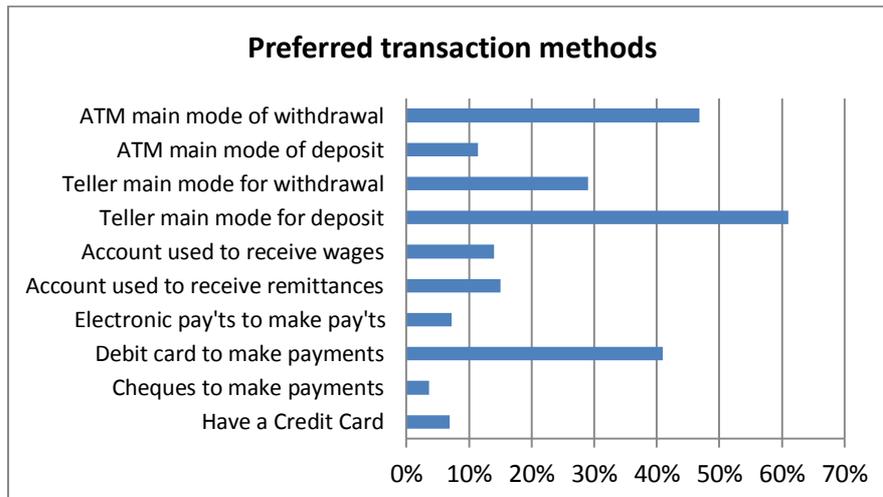
Family and friends are by far the main source for loans with only 7.9% of respondents obtaining a loan from a financial institution in the past year. Out of all respondents that had obtained a loan, 23% came from a financial institution.



Source:(Klapper 2012)

6 Preferred Transaction Methods

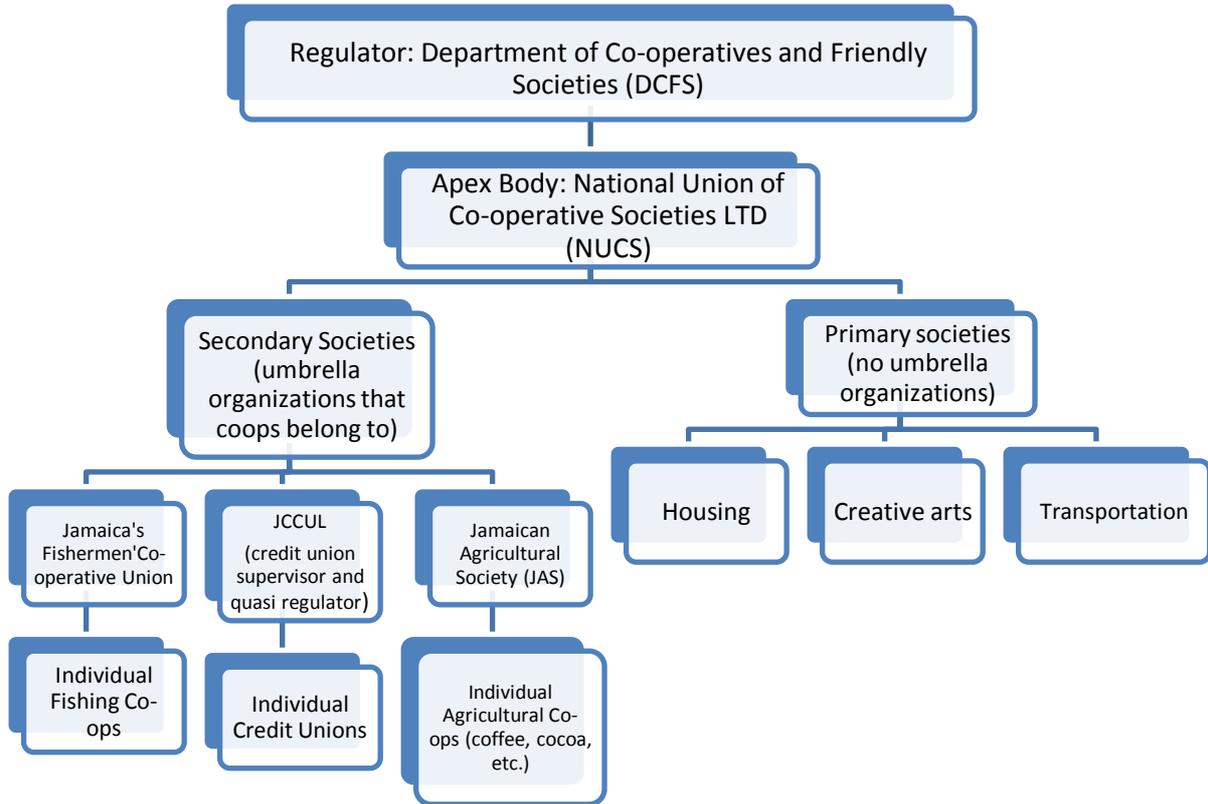
Jamaicans prefer to deposit their money face to face with a bank teller, but will withdraw money using ATM's or pay for transaction using debit cards. To deposit money, they tend to shy away from electronic means.



Source: (Klapper 2012)

7 The Cooperative Sector Organizational Chart

The apex body of the cooperative sector is the National Union of Cooperative Societies (NUCS). Individual cooperatives either are part of an umbrella organization or directly part of NUCS. Other key organizations are Department of Cooperative and Friendly Societies (DCFS), the regulator and Jamaica Co-operative Credit union League (JCCUL), the quasi regulator and supervisor for the credit unions.



Annex 3: Supply Section

1 Expense, Loss and Combined Ratios

As illustrated in the below table, the Life sector had a combined ratio of 121%¹⁵¹ in 2012 which was higher than the 102% (down from 125% in 2009) generated by the general sector¹⁵². Based on these ratios, in order to be solvent, the industry relies on investment income to support itself.

Table 17: Key Performance Indicators

Non-Life	2008	2009	2010	2011	2012	2013
Loss Ratio	68%	78%	67%	55%	57%	63%
Operating Expense Ratio	45%	46%	44%	48%	46%	37%
Combined Ratio	113%	125%	111%	103%	102%	100%

Life	2008	2009	2010	2011	2012	2013
Loss Ratio				79%	74%	
Operating Expense Ratio				49%	47%	
Combined Ratio				128%	121%	

Industry	2008	2009	2010	2011	2012	2013
Loss Ratio				72%	69%	
Operating Expense Ratio				49%	46%	
Combined Ratio				120%	115%	

The general companies' industry claim ratios improved from 78 per cent in 2009 to 57 per cent in 2012. Industry interviews indicate that claim ratios have improved as products have been repriced. FSC says decreases are because there were no hurricanes in 2012, however, the claims ratio is expected to increase in 2013, like it did, as motor claims have significantly increased. Some companies are monitoring the claims more closely as they are noticing more claims due to increased customer awareness in regards to the claims process, growing general insurance fraud and bodily

¹⁵¹ Data from FSC was used for the Nonlife ratios and Life earned premiums. IAJ data was used for claims and expense information as there were issues reconciling IAJ's data with FSC's data. Information was not available to calculate the life ratios for 2013.

¹⁵² The ratios were calculated based on net values as all gross values were not available so the impact of reinsurance cannot be measured

injury claims (whiplash especially, which can't be proven) are on the rise. It is estimated that staged accidents account for 1 billion in claims.

On the life side, the claims ratio was 74% in 2012, up slightly from 2011 (79%). Companies state that claims ratios are managed better as operations are more efficient. To manage the claims ratios, they must ensure that only valid claims are paid especially in health where pre-existing conditions may not have been declared in the purchasing process. Since a large portion of the business is universal life, the companies must also manage surrenders and withdrawals.

Industry expense ratios were 46% in 2012 (life was 47% and nonlife was 46%). It is said that high commissions from the local brokers and agents are driving the high industry expense ratios as discussed in the distribution section. Also, as indicated in the below table, in 2011, six out of the ten nonlife companies had expense ratios over 45%, with two outliers at 91% and 120%. These are the six smallest companies based on gross premium and those with the highest expense ratios are the two smallest companies.

Table 18: Expense ratios by company

	Gross Premium	Ceded premium	Net Premium	Operating Expenses	Expense Ratio
General Companies	2011	2011	2011	2011	2011
AGI	4,763	185	4,578	1,062	23%
JIC	3,778	1,429	2,349	784	33%
GA	3,626	2,532	1,094	301	28%
WIA	3,102	2,149	953	212	22%
NEM (now JN General)	2,764	1,113	1,651	964	58%
BCIC	2,739	1,340	1,399	653	47%
ICWI	2,542	1,427	1,115	776	70%
GLOBE (now Sagicor)	2,449	1,540	909	446	49%
AHA	1,411	1,168	243	292	120%
KEY	673	348	325	297	91%
Total	27,847	13,231	14,616	5,787	40% ¹⁵³

The net income ratio (before taxes) is at its highest point in three years at 43% as seen in the below table. The life net income ratio has experienced a 16% increase in 2013 even though investment income experienced little growth¹⁵⁴. General insurance net income ratios have been decreasing over the past 3 years.

¹⁵³ The by company ratios are based on net written premium and not earned premium so the ratios will be understated and not match the industry totals shown above as total nonlife net earned premium was provided.

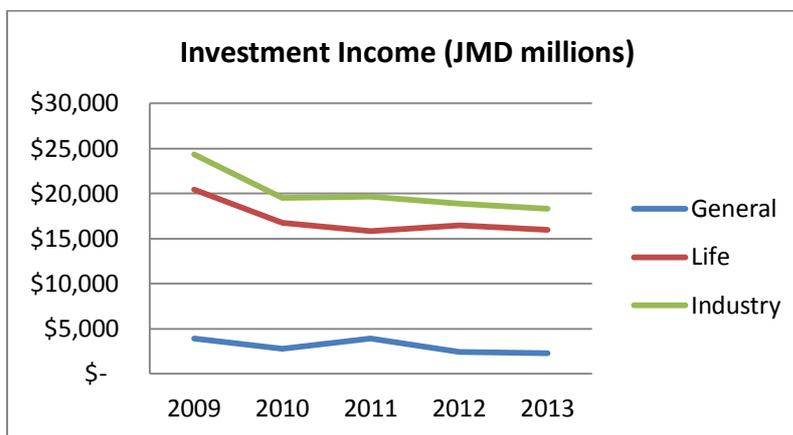
¹⁵⁴ The result is skewed as one company earned 8 billion JMD from the sale of its subsidiaries to its holding company. Without this anomaly the life net income ratio would be 31% and the industry ratio 28%.

Table 19: Historic net income ratios

	2011	2012	2013
General	36%	25%	22%
Life	39%	34%	50%
Industry	38%	31%	43%

Investment income has been experiencing a slight decrease over the past 3 years as seen in the below figure but is still a major source of profit for both the general and life sectors.

Figure 14: Historic investment income



The investment ratios calculated by FSC as seen in the table below indicate a decrease since 2009.

	2009	2010	2011	2012
Nonlife	14%	9%	12%	7%
Life	36%	13%	11%	10%
Industry	33%	12%	11%	9%

2 Distribution of General Premiums- gross and net

As seen in the table below, different reinsurance strategies are apparent in the general segment. Overall 52% of general business is retained, however, retention rates vary from 4% to 96% when comparing individual companies. Therefore, company market shares also vary depending on whether gross or net premiums are being looked at.

Table 20: Gross and net premium by company

General	2012						
	Gross Premium	Ceded Premium	Net Premium	Retention rate	Percent Industry Premium of gross	Percent Industry Premium of Net	
AGI	4,794	171	4,623	96%	16%	30%	
JIIC	3,989	1504	2,485	62%	14%	16%	
GA	3,789	2565	1,224	32%	13%	8%	
WIA	3,310	2260	1,050	32%	11%	7%	
NEM (JN General)	2,968	1270	1,698	57%	10%	11%	
BCIC	3,239	1621	1,618	50%	11%	11%	
ICWI	2,863	1582	1,281	45%	10%	8%	
GLOBE (Sagicor)	2,347	1437	910	39%	8%	6%	
AHA	1,410	1348	62	4%	5%	0%	
KEY	711	367	344	48%	2%	2%	
Total	29,420	14,125	15,295	52%	100%	100%	

3 Government Agricultural Insurance Schemes

Box 15: Government agricultural insurance schemes

Government Agricultural Insurance Schemes

Banana insurance According to the Banana Insurance Act of 1946 (BIA), every banana grower in Jamaica must be insured in respect of the assessed acreage of their banana cultivation, against damage to their cultivation caused by windstorms. The Banana Board (BB), which was created by the Banana Board Act of 1953, is responsible for the control and management of the Banana Insurance Fund. This Banana Insurance Scheme has not been operational since 2008, mainly because banana exports ceased following a series of devastating hurricanes. The downfall of the fund was that it was pegged to a single crop (bananas are very vulnerable to the elements), high reinsurance costs, farmers were uneducated about insurance, premiums didn't change and the insurance was managed by the farmers who set rates based on what they could afford rather than what the fund required. In the last three years, the Ministry of Agriculture has been working with World Bank to develop a more workable insurance for the broader agricultural sector.

Coconut Insurance In 1946 the Coconut Insurance Act recognised the possibility that the Coconut Board (CoB) design an insurance scheme to protect coconut crops. Given this, the Coconut wind-storm insurance regulations were adopted in 1949. These regulations established the framework for the CoB to arrange insurance contracts for coconut growers. Coconut insurance is managed by the Coconut Industry Board which has a viable insurance scheme that collects no premiums, offers free benefits and services and is funded from investment earnings. The Coconut Industry Board is considered a government body, but receives no injection of funds as dividends from investments are used to help farmers. No premium is paid to the fund as long as farmers are registered and meet up to standards. 7 claims were made last year out of 880 registered farmers.

The Coffee Industry Board In January 1992, the Coffee Board (CIB) authorised by the Coffee Industry Regulation Act, 1948, established a trust called The Coffee Industry Insurance Fund to finance an insurance scheme for coffee producers. The programme has been inactive since 2006 due to lack of farmer registration, difficulties in conducting field assessment after major losses and substantial reinsurance arrangements. In June 2004, the CIB was advised by its legal experts that the trust fund was in breach of the provisions of the Insurance Act of 2001. In a ruling in March 2011, the Supreme Court decided to wind up the fund. The CB is currently studying the possibility of designing and implementing a parametric insurance for coffee growers (World Bank 2011). Annex 3, section 4 outlines the structure of the scheme. At one point, 7,000 farmers were registered and 4,000 claims were made amounting to 2.9 million US\$. Admin fees are still paid to the CIB; however, participants do not receive any insurance.

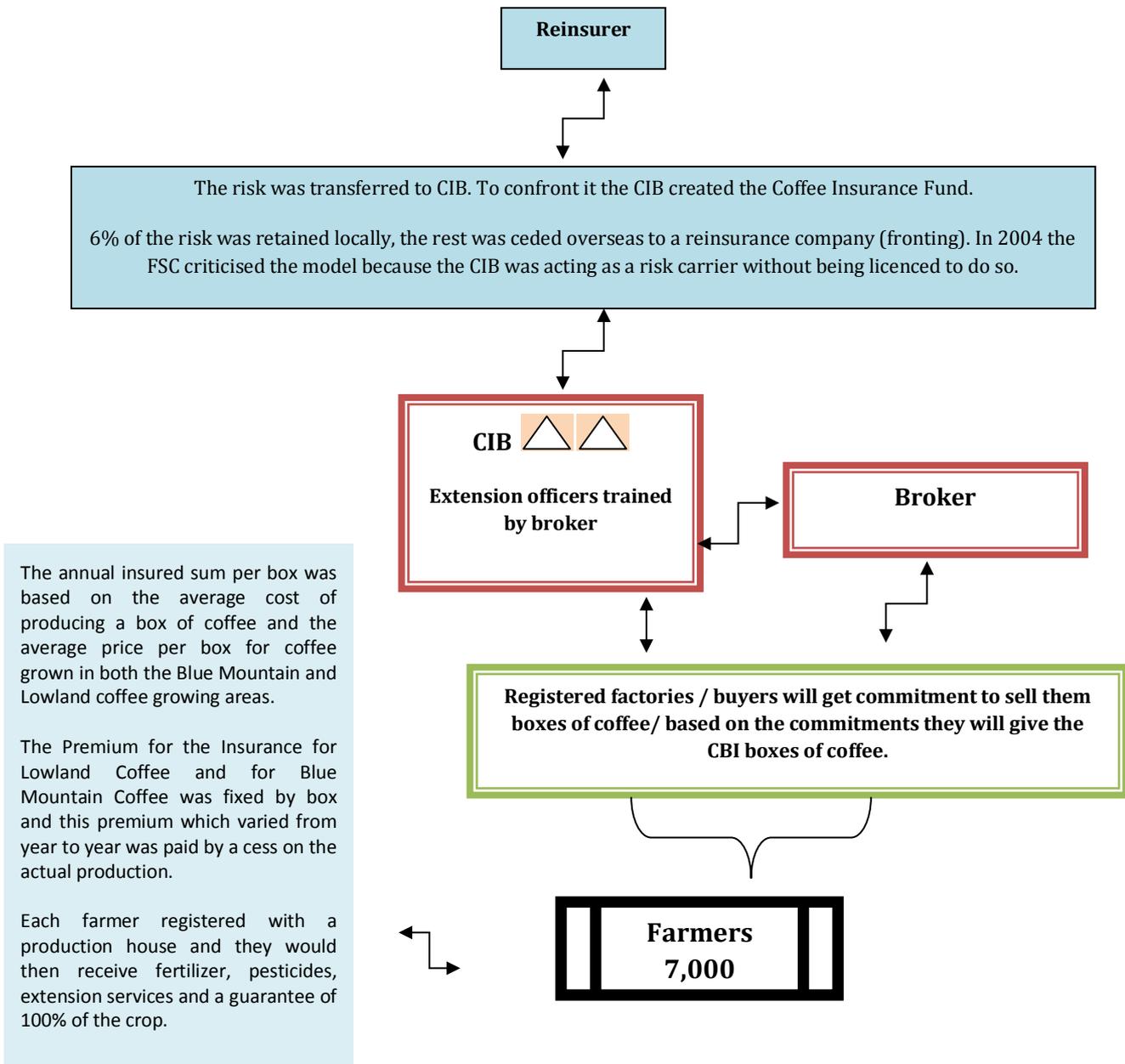
According to a study conducted in 2009 by the World Bank, the lack of sustainability of these insurance schemes was not necessarily due to high catastrophic exposure or lack of reinsurance capacity, but to the following factors:

“(i) the technical difficulty of designing appropriate insurance products and delivery mechanisms for small farmers, (ii) the diversity of tropical crops produced in the country (multi-cropping systems), (iii) technical difficulties in modelling (correlating) hurricane and flood damages to agricultural production (yields), and (iv) a generally uninterested local private insurance market (with some exceptions)” (World Bank 2009).

In such context, “ (...) the entire agricultural sector, including large integrated supply chains as well as small farmers, is absorbing almost all the climate risks, without any risk out-transfer mechanism - neither publicly nor privately (re) insured” (World Bank 2009), a situation which is still prevalent today.

4 Coffee Insurance Fund Structure

Figure 15: Coffee Insurance Fund Structure



5 TIP Friendly Society Group Policy Example

Box 16: TIP Friendly Society group policy example

TIP Friendly Society Group Policy Example to channel insurance

Teachers Income Protector Friendly Society (TIP) is the only financial based friendly society in the Caribbean and was created specifically for teachers who join in order to receive a loan. Mandatory participation in a group insurance plan where TIP is the policyholder is required in order for its members to obtain a loan creating a captive insurance market. TIP is a non-profit based insuring Society for all persons employed in the field of education. The Society was established in September 1997 and is registered under the Friendly Societies Act of 1966 which means it is regulated and audited by the Registrar of the Department of Co-operatives & Friendly Societies (DCFS). They are the only the only friendly society that offers insurance and is the largest of Jamaica's 560 friendly societies in Jamaica. TIP is managed similar to a cooperative and is a member of the International Cooperative Alliance where members pay a membership fee. TIP's mission is to protect the income of teachers.

In practice, TIP acts as the policyholder and channel for the teachers' group insurance that is offered through Sagacor, American and Guardian Insurance companies (the risk carriers). Loans are the bulk of TIP's business and it is mandatory to have at least the basic insurance offer in order to receive a loan from TIP. Since a member can only borrow up to 50% of the insurance amount, the majority of the members have obtained more sophisticated insurance plans so they can have higher loan amounts.

Members are typically teachers of primary schools as they have access to less external benefits (private schemes from alumni associations etc.) and have a lower income than other teachers so they are considered the formal underserved market. According to TIP, there are 32,000 teachers in the country and 19,000 are members of the friendly society.

Annex 4: Recommendations

Table 21: Tasks of a Microinsurance Committee

Tasks of the Microinsurance Committee	Sub Tasks
Consultation on MI regulatory reforms.	<ul style="list-style-type: none"> • Use the stakeholder process to devise proposals and support the supervisor – recognising that ultimately it is the supervisor’s prerogative to decide on and implement regulation. • Provide consultations and input to a definition of microinsurance and other requirements • Devise recommendation on how to open up distribution channels • Help identify counterproductive clauses and confusing wording.
Creation of market conduct initiatives	<ul style="list-style-type: none"> • Issues can be identified and guidelines developed outside of the regulatory framework to address common situations that deter client trust (i.e.) improved claims payment times, improved disclosure, insurance/product awareness initiatives etc.
Identify MI capacity issues within Jamaica and how to fill them.	<ul style="list-style-type: none"> • Create an inventory of technology and database capabilities of providers and intermediaries and create a plan of improving information systems and the data within them. • Create a plan that incorporates some hands on long term training to encourage practical implementation of concepts (as opposed to a short term workshop) and a chance for follow ups (potential mentorships) • Capacity building for intermediaries • Capacity building for providers - Understanding MI: a different approach to insurance: claims, underwriting, policy simplification, lower expenses, commission handling, • Training on the actuarial differences in microinsurance • Research international product and regulatory case studies and share with the industry. • Identify partnerships (government, intermediaries) and provide training sessions on criteria for good partnerships. • Explore how the knowledge of brokers/agents can be harnessed to develop microinsurance.
Research and help establish a long term business case for MI to assist with industry buy in.	<ul style="list-style-type: none"> • Disseminate information and gather industry parties for a workshop/buy in. • Highlight different industry projects at various stages of development and share challenges, success and learnings with the industry.
Through cooperative efforts deepen the understanding of the demand landscape.	<ul style="list-style-type: none"> • Undertake demand studies and disseminate knowledge • Research to understand the microinsurance customer in specific sectors
Through consultations identify and facilitate steps to improve the microinsurance supply landscape.	<ul style="list-style-type: none"> • Research supply and demand for products to identify the products that have value (and are affordable) for the low income client and identify the gap that exists for new, innovative products. • Support MI Product development, • Establish joint product standards for microinsurance products in regards to terminology and simplifications. • Encourage industry stakeholders to collaborate on innovation and share expertise. Pooled resources or a shared research and development agenda on elements that individual insurers do not normally have the resources to invest enough in, such as information technology or market research, all have the potential to reduce product development costs for individual insurers.
Establish a monitoring and evaluation (M&E) framework for microinsurance at the country level.	<ul style="list-style-type: none"> • Decide on who is responsible for gathering the data. Since private providers are very cautious with proprietary data, trying to do M&E without the authority of the insurance supervisor may be challenging. • Standardize Performance indicators and reporting requirements for microinsurance products • Disseminate information on KPI’s • Encourage transparency and disclosure

The Access to Insurance Initiative: Toolkit IV¹⁵⁵ outlines learnings from the various country diagnostics that have been conducted throughout the world. Good practices suggested for such a committee are seen in Box 16.

Box 17: Good practices of a microinsurance committee

Box 16: Good Practices for a Microinsurance Committee

1. **Choosing participants.** Convening such a group in a way that achieves the right level of representation, while still ensuring a nimble structure, is fundamental to the success of the process. Follow an inclusive approach: bring as many stakeholders as possible to the table as early on as possible. At the same time, caution against becoming so inclusive that it slows down or derails the process. Take care to involve the right people from the right organisation, those with the drive and mandate to contribute meaningful ideas and then “see it through”. To do so, it is not sufficient to merely send out impersonal invitations for participation in the stakeholder group; bilateral discussions are needed to explain the rationale and determine the most appropriate persons to involve.
2. **Ensure buy-in by speaking to different needs and incentives. Address agendas of all parties**
3. **Leverage existing processes and initiatives supporting financial inclusion for the lower income population.**
4. **Share outputs beyond the core group.**
5. **Have a coordinator to drive the process.**
6. **Local ownership.** Development partners should never be the owners or face of the process.
7. **Endorsement by the supervisor.** While it will always be a multi-stakeholder initiative, endorsement by and /or the support of the supervisor is important to the success of the stakeholder process –in terms of the credibility of the group, in ensuring the impact of action plan activities, as well as in fundraising. Some aspects of the action plan, for example the gathering of data, may also require direct supervisory intervention.
8. **Sequencing.** It may be that those driving the process initially need to sequence activities to show some “quick-win” results in order to achieve broad-based buy-in before embarking on more long-term strategies.
9. **Maintain momentum across a clear time frame.** Upfront buy-in and a dedicated coordinator will go a long way to ensure that momentum is maintained. The same holds for clear and realistic milestones set as part of the strategy process.

¹⁵⁵ (Hougaard 2013).



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