

Stimulating Demand: The Supervisor's Role in Building Insurance Awareness

Report of the A2ii – IAIS Consultation Call



The Consultation Calls are organised as a partnership between the Access to Insurance Initiative (A2ii) and the International Association of Insurance Supervisors (IAIS) to provide supervisors with a platform to exchange experiences and lessons learnt in expanding access to insurance.

Introduction

Lack of insurance demand is one of the key obstacles to the development of responsible inclusive insurance markets. In managing risk, the unserved and underserved population generally do not know which formal risk management tools – such as insurance – are available, and where they do, they do not trust the insurance sector. This has an important impact on the willingness to buy and renew insurance products. In this context, risk management and insurance awareness programmes could play an important role in addressing the demand challenge.

On this consultation call, Andrea Camargo (Director of Inspowering and Technical Expert at the A2ii) delivered the expert input across all the calls. On the English calls, Andrea was joined by Randip Singh from the Insurance Regulatory and Development Authority of India (IRDAI), Thomas Chang from the Financial Supervisory Commission of Taiwan (FSC) and Dr. Isaac Agyapong from the Deutsche Gesellschaft fuer Internationale Zusammenarbeit (GIZ) in Ghana, who shared experiences from their jurisdictions. Carlos Izaguirre Castro, the Deputy Superintendent of Insurance in the Superintendency of Banking, Insurance and Private Pension Funds of Peru (Superintendencia de Banca, Seguros y AFP de Perú, SBS) and Daniel Ernesto García Schilling, the Intendant of the Financial Market Commission of Chile (Comisión para el Mercado Financiero, CMF) shared experiences from their jurisdictions on the Spanish call.



The Link between Insurance Awareness and Demand

Determinant	Evidence available	Effect on first sales	Effect on renewals
Trust	😊😊😊	High	Medium
Liquidity constraints	😊😊😊	High	Medium
Value proposition (and its perception)	😊	Medium-high	High
Behavioural factors	😊	Medium-high	High
Understanding insurance	😊😊	Low-medium	Medium-high
Access to other coping mechanisms	😊	Medium	Medium

Figure 1: The effects of determinants on first sales and renewals of insurance. Source: The complexity of increasing demand what we can do about it in The State of Microinsurance 2015 (Matul, 2015)¹

There are a number of determinants that can stimulate demand for insurance. Evidence has shown that understanding insurance is one of such determinants, particularly at the point of renewals (Figure 1). As such, deliberate initiatives to increase the understanding of insurance or insurance awareness can potentially help supervisors achieve the goal of boosting demand for insurance. This in turn helps promote the growth and development of the insurance sector, while also enhancing consumer protection. However, supervisors may need to be targeted and realistic in their efforts: Figure 1 also shows that the effect of understanding insurance on first sales is “low-medium”.

For the purpose of this consultation call, insurance awareness is defined as having the knowledge and understanding what insurance is, and how it works. Insurance awareness can be discussed on two levels:

- The first level is broad. This means having a general grasp and understanding of the basics of risk management and insurance. For instance, this could comprise a broad understanding of risk exposure and levels of vulnerability, available risk management tools, and the fact that insurance is an existing risk management tool. It could also cover some basics of insurance, such as how it works in a practical sense, who is responsible for protecting consumers and what mechanisms are in place.
- The second level relates to understanding specific information about insurance products, such as the marketing material of the product, specific terms and conditions of a purchased policy and specific product usage.

¹ Available at: https://microinsurancenetwork.org/sites/default/files/MiN_State%20of%20Microinsurance_0.pdf

This two-level approach raises an important distinction and issues to consider:

- Where are the lines between financial education, marketing, and compliance of insurers and intermediaries with disclosure requirements? Insurers often combine insurance awareness programmes with product marketing. Much of the information insurers provide to consumers are provided to comply with requirements, and may not necessarily be effective at building insurance awareness.
- How can the value of financial protection be better communicated, so that insurance is considered as an important risk management tool? The unserved and underserved populations are aware of the risks they face and often have their own innovative strategies to manage risks. However, many tend to underestimate the losses suffered, and as such may not be open to alternative or better risk management tools. This makes it difficult to communicate the value-add of insurance protection.

Is Promoting Insurance Awareness a Supervisory Mandate?

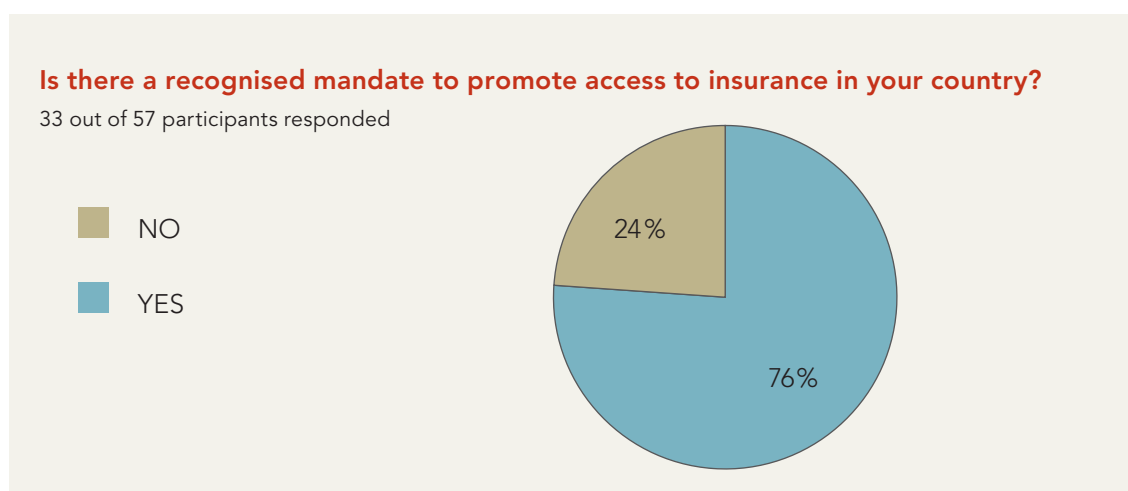
The IAIS Insurance Core Principles (ICPs) recognise that the two key supervisory objectives are protecting policyholder interests and ensuring financial stability. The IAIS also acknowledges the importance of conduct of business (COB) supervision towards these objectives, where a key objective of COB supervision is to protect consumers from potential abuse arising from the asymmetry of information between consumers and financial institutions. Where consumers have low financial literacy levels, the risk of such abuse is exacerbated. This implies that promoting financial literacy and insurance awareness can contribute to core supervisory objectives.

IAIS standards and guidance on this topic are anchored on treating consumers fairly (ICP 19.0.2) and disclosure from various parties to help consumers make informed decisions. It is stated that “The supervisor requires insurers and intermediaries to promote products and services in a manner that is clear, fair and not misleading” (ICP 19.6) and “The supervisor requires insurers and intermediaries to provide timely, clear and adequate pre-contractual and contractual information to customers” (ICP 19.7). ICP 18 sets out that the “The supervisor sets and enforces requirements for the conduct of insurance intermediaries, in order that they conduct business in a professional and transparent manner”². The role of supervisor in providing information is stated in ICP 19.13.4: “The supervisor should publish information that promotes consumers’ understanding of insurance contracts as well as steps that consumers can take to protect themselves and make informed decisions.” The ICPs also go further to acknowledge that intermediaries can play a role in promoting financial awareness (See below section “How Insurance Supervisors Can Promote Insurance Awareness”).

² Also see ICP 18.0.17-18.0.19 on the role of intermediaries promoting public trust and confidence in the insurance sector

In terms of current supervisory practices, there are countries where it is specifically recognised that the mandate of the insurance supervisor is to promote financial literacy. Practically speaking, this translates to supervisors taking the lead in developing and implementing financial literacy materials and programmes, or supporting broader sectoral or jurisdictional financial literacy strategies, or both³. This is typically done as a component of its COB mandate or of its mandate to promote access to insurance. Where financial inclusion or access to insurance is recognised a mandate, supervisors tend to pay special attention to any factors that can promote uptake of insurance, which includes insurance awareness.

During the consultation call, supervisors responded to a quick poll that sought to identify whether promoting access to insurance is recognised as a mandate in their jurisdictions. The response is illustrated in the chart below:



³ For practical examples, see Section 2.2.2 of "Application paper on approaches to conduct of business supervision" (IAIS, 2014). Available at: <https://www.iaisweb.org/page/supervisory-material/application-papers//file/34552/application-paper-on-approaches-to-conduct-of-business-supervision>

The Particular Relevance of Insurance Awareness to Inclusive Insurance

Insurance awareness is particularly critical for inclusive insurance consumers. The inclusive insurance market is characterised by consumers who are particularly vulnerable in the face of financial shocks, while also being more prone to mis-selling and abuse by insurers and intermediaries. The typical profile of an inclusive insurance consumer is as below:

- Low levels of education
- Low insurance awareness
- Lack of trust in insurance
- Low levels of disposable income
- High power asymmetries
- Difficult to reach

In providing inclusive insurance, there are a number of awareness-related risks that can arise for the inclusive insurance consumer. The IAIS Issues Paper on Conduct of Business in Inclusive Insurance (2015)⁴ highlights that the degree of separation between the insurer and the insured, the variety of entities involved, the skillsets of sales persons and the particular vulnerability of the consumer considerably increase the risks. Out of the six key risks identified by the issues paper, the following four are related to insurance awareness:

1. **Aggregator risk** – Risk associated with reduced consumer value and inappropriate products being sold to customers when an insurer sells the product via the aggregated customer base of a non-insurance third party
2. **Sales risk** – Risk that a salesperson will misrepresent the product to the customer or sell a product that the customer does not need.
3. **Policy awareness risk** – Risk that the insured is not aware that he or she has an insurance cover, is not fully aware of the terms and conditions of the cover or does not know how to make a claim.
4. **Post-sales risk** – Risks associated with unreasonable post-sale barriers to maintain their cover, change between products, make enquiries, submit claims, receive benefits or make complaints.

4 Available at: <https://www.iaisweb.org/page/supervisory-material/issues-papers/file/57850/issues-paper-on-conduct-of-business-in-inclusive-insurance>

The paper recognises that enhanced insurance awareness can help address these risks. By understanding both the first and second levels of insurance awareness, the consumer is better able to discern the quality of the product being offered and make an informed choice, understand post-sale and claims processes and carry them out when a financial shock occurs, understand their rights and obligations and therefore know when to seek out recourse and lodge complaints.

How Insurance Supervisors Can Promote Insurance Awareness

Supervisors could lead efforts to advocate the benefits of insurance, whether by ensuring that insurance awareness is a key component of financial inclusion and financial education strategies, or adopting sector specific strategies. Taking a specific approach, the Insurance Commission of the Philippines had published a National Roadmap to Financial Literacy on Microinsurance. Supervisors can carry out the activities themselves, or work with stakeholders in doing so. On this consultation call, the following ideas were presented:

- 1. Build insurance awareness among entities that are in a position to generate demand and build resilience, rather than only consumers.** If government entities such as the ministries of finance, agriculture, environment and disaster resilience, as well as social protection and national welfare authorities appreciate the benefits of insurance, they are more likely to embed insurance as an element of their policymaking. This could unlock opportunities to develop innovative products, or boost uptake of insurance on a large scale.
- 2. Leverage entities that deliver services to inclusive insurance customers or aggregators.** This could include as microfinance institutions (MFIs), cooperatives, non-governmental organisations (NGOs) and agribusinesses. Guidance under ICP 18 states that “enhanced financial awareness can be achieved, for example, through formal education initiatives and targeted awareness campaigns led by insurers and intermediaries, individually or jointly”. “Intermediaries’ face-to-face dealings with their customers and marketing of products to consumers place them in a position to contribute to strengthening the financial awareness of the public on insurance matters. Supervisors may therefore wish to encourage insurance intermediaries to promote financial awareness.”
- 3. Coordinate insurance awareness programmes with public and private stakeholders who also have the same goal.** Guidance under ICP 18 states that “governments, supervisors, social interest organisations and insurers have a significant role to play in consumer protection. Other stakeholders, using various communication channels, are also able to play a significant role.” Other than the prior examples mentioned, these could also include the insurance association and consumer protection associations. Collaboration is essential to avoid reinventing the wheel and duplicating costs and efforts. Some angles to consider include:

- Building in synergies between risk management awareness programmes and insurance awareness programmes
- Dialogue and coordination platforms that enable sharing of evidence and impact of programmes, thus encouraging adoption of streamlined and evidence-based programmes
- Operating based on clear distinctions between financial education, marketing and compliance with disclosure obligations
- Clearly delineating who does what and who pays for what (roles and responsibilities)

Participant Insights

A comment during the consultation call was that it is necessary to go beyond microinsurance regulations to ensure adequate access to insurance for the low-income. The supervisor needs to propose public policies involving the private sector and other government bodies to promote risk and insurance awareness.

More often than not, insurers are not interested in inclusive insurance market. In many cases, one of the main constraints is lack of demand and lack of understanding/knowledge of insurance.

The IRDAI noted that they collaborate with various councils which represent different insurance trade bodies. In life insurance and general insurance, the IRDAI collaborates with the insurance council and general council respectively to ensure that consumers understand and are aware of the risks they face.

4. Adopt proportionate and targeted approaches to insurance awareness. It is also important that approaches to awareness and disclosure evolve alongside the development and innovation of the market.

- Ensure that insurers and intermediaries understand and respect the distinction between financial education, marketing and disclosure.
- Ensure that distribution channels have the appropriate skills and competence to inform or educate consumers as necessary.
- Pay particular attention to awareness on claims management and dispute resolution.
- Ensure that disclosure requirements are appropriate for the business model applied in the case of group insurance.
- Allow the use of technology to promote insurance awareness.
- Not restrict product innovation on the grounds of low awareness. Consider allowing the offer of innovative products in the market and monitor consumer experience closely.

CASE STUDY: INDIA

The India case study was presented by Randip Singh from the Insurance Regulatory and Development Authority of India (IRDAI).

IRDAI has a mandate to develop the insurance market, promote financial inclusion as well as ensure access to insurance. IRDAI is also a member of the National Centre for Financial Education, a national body that promotes financial literacy and financial inclusion programmes. To stimulate demand for insurance, IRDAI has utilised various means that cuts across the entire value chain of the insurance life cycle and targets inclusive insurance consumers. To facilitate the sale of microinsurance products, microinsurance regulation in India recognises the unique features of inclusive insurance products and promotes general financial inclusion in the country. Furthermore, IRDAI has developed rules and social sector obligations under which all insurance companies are required to ensure a certain percentage of their business is for rural areas or poorer segments of society.

IRDAI has a special category of products i.e. microinsurance products which are low-ticket-sized products where premiums could be as little as USD25 or USD30, with a sum insured limit of approximately USD2, 000. To meet sector obligations and the needs of the low-income, the government has issued tax incentives for these products. There is no Value Added Tax (VAT) charged on microinsurance products, which reduces the overall cost of the products. There are also low-cost group schemes run by the government such as personal accident policies and term life insurance policies, where premiums are as low as 10 cents for an insurance cover.

In reaching the rural populations, there are common service centres in various villages where owners of computer and internet shops act as intermediaries and offer insurance products through the internet.

IRDAI also has a consumer education website (www.policyholder.gov.in) which is used as a platform to disseminate information to consumers in all regional languages. Topics include how to make insurance complaints and how to buy an insurance policy, among others. To promote the understanding of insurance, the government (Ministry of Education) is also active in promoting financial literacy, having included insurance in the core curriculum of schools.

IRDAI has a number of ways to assess the effectiveness of the insurance education and awareness programmes e.g. carrying out surveys with indicators that assess if there has been an increase in the number of policies, effectiveness of educational campaign messages, or change in number of complaints.

For questions or more information on the relevant activities of IRDAI, India please contact randip@irda.gov.in

CASE STUDY: TAIWAN

The Taiwan case study was presented by Thomas Chang from the Financial Supervisory Commission of Taiwan (FSC).

Inclusive insurance in Taiwan targets the economically disadvantaged and specific groups of people such as the Aboriginal Taiwanese, farmers and fishermen. For instance, the Aboriginal Taiwanese make up 40% of total microinsurance coverage in Taiwan. The criteria for these groups are based on conditions that renders them vulnerable to risks. For example, the aboriginal population of approximately 500,000 people mostly live in mountainous areas where job opportunities are scarce and resources are limited. The government purchases microinsurance products for these groups to cover the risks they face.

The microinsurance market in Taiwan has been growing rapidly. As of the end of 2018, more than 600,000 people had some form of microinsurance coverage. The accumulated value of insurance premiums stood approximately at USD7.5 million, while the accumulated insurance benefits payment was about USD4.9 million. The FSC recognises the importance of raising public awareness and ensuring that the public understands the benefits of insurance. To this end, the FSC has organised various activities such as organising nationwide workshops, publishing microinsurance brochures and Q&A platforms to enhance the public's understanding of microinsurance.

One of the challenges faced by both the FSC and insurers in promoting microinsurance is the difficulty of reaching and identifying potential microinsurance consumers. To solve this and to stimulate demand for inclusive insurance products, the FSC has employed various cooperation mechanisms to promote microinsurance. One way has been to liaise with governmental departments, which are well connected and have access to vulnerable populations. The FSC collaborates with local governments in advocating the benefits of microinsurance among local residents. In cooperating with local governments, the FSC also requires insurance industry associations to set up platforms that match supply and demand of insurance products i.e. interested governmental agencies and social welfare groups can use this platform to raise the needs of disadvantaged groups, which will then be accordingly communicated to insurance companies. This cooperation mechanism with governmental agencies has enabled insurance companies to identify potential consumers.

Another challenge when promoting microinsurance is facilitating public and private sector collaborations, and involving the industry to provide microinsurance products. To ensure an enabling environment and to encourage insurers to engage in this line of business, the FSC has utilised several supervisory incentives. Examples includes the speeding up of the review of business applications, rewarding them with public recognition and exemptions for insurers selling microinsurance products from certain requirements such as those related to solicitation and underwriting. There is also some budget allocation from government agencies for subsidising premiums of microinsurance products that target low-income and vulnerable groups.

For questions or more information on the relevant activities of FSC, Taiwan,
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CASE STUDY: GHANA

The Ghana case study was presented by Dr. Isaac Agyapong from the *Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)* in Ghana.

In Ghana, insurance awareness and educational campaigns are a collective effort driven by the insurance industry and the National Insurance Commission of Ghana (NIC). Educational interventions are designed according to population, geographical, market and gender characteristics. The NIC has recognised the thin line between financial education and sales and marketing of insurance products and as such, collaborates with the industry to identify innovative and effective means of carrying out financial education programmes and promoting awareness.

The Insurance Awareness Coordinators Group (IACG), which comprises key players in the insurance industry (NIC representatives, market representatives, underwriters, brokers etc.), was formed on the basis of driving insurance educational interventions. The insurance market and the NIC jointly fund the IACG, who utilise these funds to run and cover the costs of interventions. To ensure that the public-private sector collaboration is effective, decision-making is driven by the steering committee of the IACG, who meet regularly. In terms of budgeting, the financial commitment of each representative is stipulated in a guiding constitution.

Educational interventions are designed for different segments of the population. For instance, in targeting the informal sector, interactive animation campaigns using music and dance has been used in insurance education campaigns. The message is simplified and straightforward to highlight the benefits of insurance and create awareness of the rights and responsibilities that potential consumers have when buying insurance. Campaigns have been translated into 36 local Ghanaian dialects, spoken by 85% of the total population in Ghana.

A number of indicators are used to measure the impact of these programmes: geographical reach, language inclusivity, number of people buying and inquiring about insurance products through the educational activities, response rate of the industry from potential consumers and gender dimensions.

For questions or more information on the relevant activities of the IACG,
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CASE STUDY: PERU

The Peru case study was presented by Carlos Izaguirre Castro, Deputy Superintendent of Insurance in the Superintendency of Banking, Insurance and Private Pension Funds of Peru (Superintendencia de Banca, Seguros y AFP de Perú, SBS)

Peru's National Financial Inclusion Strategy includes measures that stimulate the uptake of insurance, the promotion of innovative sales channels, as well as creating incentives for products targeting micro, small and medium-sized enterprises (MSMEs). The National Financial Inclusion Policy, currently under development, will have the objective of promoting simple and innovative financial services, including efficient and adequate insurance products. A digital strategy has also been developed with the aim of reaching a larger population group through digital media. The purpose is to streamline communication i.e. inform, educate and guide the public.

SBS collaborates with other key stakeholders in undertaking financial inclusion initiatives. They form part of a public-private dialogue platform through which a series of initiatives are implemented to generate better products that cover the needs of the population. This also involves the support of organisations such as the GIZ. The supervisor is also working with insurance information centres to collect data not only for solvency purposes, but also to use some of this information to improve product pricing and reduce cost of products hence generating greater financial inclusion.

In terms of financial education, there are various initiatives that aim to educate the public on the importance of insurance, but with a language that focuses on the risks while being simple and friendly. The SBS leads and promotes financial education initiatives through different programmes aimed at different audiences: teachers, children, youth and adults.

- It has collaborated with entities such as the Inter-American Development Bank (IDB), Multilateral Investment Fund (Fondo Multilateral de Inversiones, FOMIN) and the GIZ to develop financial education materials and fund these initiatives. The Peruvian Association of Insurance Companies (APESEG) has its own initiatives and coordinates with different entities to streamline costs and expand the scope of the initiatives.
- The Ministry of Education has incorporated insurance into the school curriculum, as one of its objectives of creating competency in responsible management of economic resources. The SBS has for the past 14 years been training social science teachers in financial management subjects. To date, there are about 16,000 teachers among 50,000 specialised in these topics. The programme advances at the rate between 1,500 and 2,000 teachers per year.
- Other institutions, such as the Ministry of Agriculture, the association of banks, the insurance association among others, have been involved in different education programmes for different target groups.

For questions or more information on the relevant activities of SBS, Peru, please contact cizaguirre@sbs.gob.pe

CASE STUDY: CHILE

The Chile case study was presented by Daniel Ernesto García Schilling, the Intendant of the Financial Market Commission of Chile (Comisión para el Mercado Financiero, CMF).

The CMF is currently working on two aspects to enable the development of inclusive insurance in Chile: a medium-term and a short-term strategy.

- In the medium term, the CMF is working on its existing legislation. CMF has identified legal barriers to the development of a strategy for financial inclusion. To address this, the CMF is working on a Risk-Based Supervision Bill. A component of this will allow two legal adjustments, making it possible to incorporate a provision to promote inclusive insurance in the future. The first adjustment will create provisions for the development of parametric insurance. The second adjustment will create specific considerations and exemptions for inclusive insurance products.
- In the short-term, the CMF is working on administrative adjustments to identify the gaps in current regulations. The adjustments will enable the development of some inclusive insurance product lines within the current legal framework. The scope is more limited as it does not create sufficient scope to effect broader public policy.
- All these activities are based on a definition of inclusion that considers the three basic pillars mentioned by the Organisation for Economic Co-operation and Development (OECD), which are: facilitate access, generate conditions for the protection of the rights of the policyholder; and incorporate elements of financial education.

In relation to financial education, there is a national-level Advisory Council on Financial Education comprising high-level representation from several ministries and departments, including the CMF. In this context, the Ministry of Education is engaged in training teachers and school-going children with useful insurance concepts. The CMF has, for several years, collaborated with the Ministry of Agriculture to develop subsidised agricultural insurance products that offer comprehensive coverage for targeted lines such as livestock insurance. The CMF has also developed frameworks to promote agricultural insurance for smallholder farmers.

The private sector has also been active in financial education initiatives. The Association of Insurers played a leading role in the training of teachers, and also organised contests and interactive games that include financial education components. The Association of Banks and the Association of Mutual Funds have contributed to such initiatives. There are also other stakeholders who have their own respective agendas to promote financial inclusion. For instance, working with the State Bank in Chile, trade associations and public banks have also developed financial education initiatives.

The CMF is aware that these are long-term initiatives, which will require closer public-private sector coordination. Looking ahead, with the implementation of the National Financial Inclusion Strategy, the CMF is looking to better coordinate the activities of the different entities. CMF also intends to establish the distinctions between financial education, marketing, and disclosure obligations of insurers and intermediaries.

For questions or more information on the relevant activities of CMF, Chile, please contact dgarcia@cmfchile.cl

Questions and Discussion

Are there any cross-border peer exchange programmes with supervisors from other countries or regions?

While not specifically on insurance awareness, the IRDAI carries out exchange programmes with supervisors from other regions. They facilitate study visits from supervisors in neighbouring countries as well as from the African continent. Through these programmes, the IRDAI shares information on ongoing initiatives as well as their regulations.

How does the partnership between the FSC and the industry to promote the uptake of microinsurance work⁵ (in particular the initiative that aggregates donations from the industry to promote insurance to disadvantaged groups)?

The insurance association in Taiwan set up a platform which aims to match demand and supply. Through this platform, local government agencies and welfare groups communicate the needs and demands of economically disadvantaged groups in Taiwan. The insurance association then passes on these demands to insurance companies. Depending on the availability of financial resources, insurers can subsidise premiums of microinsurance products for these disadvantaged groups.

⁵ See <https://insuranceasianews.com/taiwan-expects-200000-micro-insurance-policies-by-end-of-year/>

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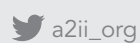
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