access to insurance initiative

IAIS
INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

Report of the 14th A2ii – IAIS Consultation Call

Regulatory Incentives for Insurance Market Development

21 January 2016

The A2ii consultation calls are organised in partnership with the IAIS to provide supervisors a platform to exchange experiences and lessons learnt in expanding access to insurance.

The 14th consultation call, held on 21 January 2016, focused on regulatory and market incentives for insurance market development. Four calls were held: two in English, one in French, and one in Spanish.

During the English calls, Michael McCord (President of the MicroInsurance Centre) shared the preliminary findings from the Centre's research with IAIS and the A2ii on proportionality in practice, and Hui Lin Chiew (Bank Negara Malaysia) presented findings from their recent consultation with the industry to identify measures to develop the microinsurance market. On the French and Spanish calls, Andrea Camargo (Microinsurance Catastrophe Risk Organisation, MiCRO) shared the preliminary findings from the Micro-Insurance Centre's research with IAIS and the A2ii on proportionality in practice. On the French call Luc Noubissi (Commissioner of Insurance Control for Conférence Interafricaine des Marchés d'Assurances, CIMA) shared their experience introducing certain regulatory incentives into the CIMA region. On the Spanish call Mirla Barreto (Superintendencia de Banca, Seguros y AFP del Peru) shared their experience implementing certain regulatory changes to motivate the insurance industry in Peru.

Proportional regulation

When aiming to foster the growth of inclusive insurance markets, it is important to have the correct regulatory incentives in place to do so. Regulation must be proportionate to the nature, scale and complexity of risks inherent in individual insurance business. It must also strike a balance between **motivating the industry** and **protecting the consumer** if it is going to achieve its intended objectives and expand access to insurance for low income consumers. It is important to note that proportional regulation does not necessarily mean lighter regulation. Inclusive insurance products in particular often deal with more vulnerable target markets, meaning that more stringent regulation may in fact be required.

The IAIS and the A2ii are working together to support regulators to strike this balance. The IAIS is committed to the **development of a fair, safe and stable insurance market**. The A2ii is committed to advancing inclusive insurance markets whilst protecting more vulnerable low-income consumers. Regulation can play an important role in stimulating the growth of insurance markets by **avoiding or removing unnecessary barriers to greater access to insurance and by lowering the barriers** to entry. This was highlighted in 2012 in the IAIS Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets which noted that regulators and supervisors should be:

- Developing the insurance markets;
- Creating incentives to expand insurance throughout the markets; and
- Applying the proportionality principle.

However, implementing proportionality in practice remains a challenge. Striking the balance between consumer protection and motivating the industry remains a struggle for many supervisors despite it being critical for the effective application of regulation for microinsurance. This Consultation Call focused on the key considerations for supervisors when looking to implement a proportionate approach to regulation and supervision to incentivise and motivate the industry to provide inclusive insurance products.

Responding to the challenges supervisors are facing with regards to proportionality, the A2ii was requested by the IAIS to identify critical issues with regards to proportionate regulation and identify key lessons and success stories in implementing proportionality.

This request reflects the increasing recognition by the IAIS, A2ii and local regulators that by making the low-income insurance market more appealing to providers, through reducing regulatory costs and barriers to entry, they can grow inclusive insurance markets.

Survey to identify industry perspective on where proportionate approach is most important

To help inform the development of the proportionality in practice case studies as well as to build greater knowledge on what factors influence an insurers decision to enter (or not) into a particular market a survey was developed. The survey drew responses from 101 insurers across 46 countries in Africa, Asia and Latin America. The survey identified the top five regulatory and market factors for providers to enter and stay in the inclusive insurance market, respectively.

Survey results

Michael McCord of the MicroInsurance Centre presented the results from the survey on the call. The box below captures the results and select responses from the survey question 'what are the set of regulatory issues that are upper-most in mind of providers when they decide whether or not to respond to a proportional regulation (i.e. extend products to target the low-income market)?'. The survey gave respondents 41 options to choose from and the top 5 answers were presented on the call ranked in order of importance from 1 (most) to 5.

Top 5 regulatory determinants of entry to inclusive insurance markets	
1. Reducing disclosure content requirements	"It is extremely expensive, relative to the total premium, to make all the same disclosures and meet the same fit and proper requirements on simple products." *Life insurer, South Africa*
2. Allowing market sensitive language	"Simple policy documents supported by simple language will be more appealing to the masses as they will understand what insurance is and what they are insured for …" *General insurer, Malawi*
3. Allowance of fully electronic policies	"In today's world just about everything is more convenient and accessible due to advances in technology, use of mobile phones and other e-gadgets. To issue policies electronically will not only be convenient to clients but cost-efficient to the insurer." *Life insurer, Ghana*

4. Availability of specific regulations for micro-insurance	"The lack of specific microinsurance regulation impacts the manner in which products are designed and sold within the market. A constraint for established product providers. If smaller companies are allowed to provide products to the market and regulation provides flexibility, a lot can be achieved." *General insurer, South Africa / multiple countries*
5. Allow use of any means of payment	"The common denominator between all the different segments of the population is mobile phone use. I think it is the best form of communication and distribution in mass and complies with the purpose of inclusion. But the use of this technology is limited to meet regulatory controls for the designation of beneficiaries and adoption of an electronic settlement attesting the payment of claims. The selected points facilitate the operation." *Composite insurer, Mexico*

In addition, survey respondents were asked 'what are the top market factors which influence their decision to enter or stay in the inclusive insurance business'? For this they were given a list of 14 different options to choose from. The following box lists the top 5 factors from 1 (most) important to 5.

Top 5 market factors that influence your decision to enter or stay in the inclusive insurance business	
1. Availability of distribution channels	"The clearer the environment and technological feasibility of channel development and internal experience in this type of inclusive insurance, it is clear that the result is attractive to the growth of the company, the market and the insured – balancing business profitable margins within just society." *Insurer, Colombia*
2. Availability of clients/market information	"Investment in IT is vital for the development of this segment. Likewise further information on the markets." *Composite insurer, Dominican Republic*
3. Internal technical expertise/ capacity	"Insurance companies are largely devoid of the expertise and capacity required to design and provide an insurance product to the low-income community. This is the obvious stumbling block that hindered many insurance companies from venturing into the micro-insurance products in this country." *Composite insurer, Ethiopia*
4. Profit potential	"It must make business sense to enter or stay in this market for our shareholders. IT systems also are critical and need to be flexible so changes can be made quickly." *Life insurer, Namibia*
5. Availability of market education programmes	

Summary of the findings

The findings from the survey highlight that for providers to enter the inclusive insurance market it first needs to make business sense. While regulatory factors are important, the responses from the survey indicate that market factors have a bigger impact on an insurer's decision. This was most notable in responses to the second question, where respondents were given the option to name both market and regulatory factors, but no regulatory factors were mentioned. However, this is likely to change as an insurer's operations in the low-income market matures and regulation come more to the forefront.

Therefore, the fact that regulatory factors were not mentioned as top-of-mind when considering the totality of potential barriers does not imply that they should not be addressed. It is more likely a question of appropriate sequencing, meaning that market factors may be addressed first, while appropriate regulation can be developed, ready for implementation when the market is ready.

Proportionate supervisory approaches to incentivise industry and protect the consumer: Country Examples – CIMA, Malaysia and Peru

The following two boxes summarise the country examples shared on the French, English and Spanish calls from the CIMA region, Malaysia and Peru, respectively. The CIMA region and Peru examples are summarised in one box given the cross-cutting lessons emerging from their experience.

CIMA region and Peru country examples

Luc Noubissi, Commissioner of Insurance Control for CIMA, presented on the experiences of applying proportional regulation in the region. Mirla Barreto, Superintendencia de Banca, Seguros y AFP del Peru presented on the same process in Peru.

Peru

In 2007, the Superintendencia de Banca, Seguros y AFP del Peru (SBS) introduced new regulation to provide a differentiated regulatory regime for microinsurance to motivate the industry into the low-income insurance space. While the regulation drew the attention of the industry, less than half of new microinsurance products attracted customers as the regulation of microinsurance was found to restrict innovation through quantitative limits and lack of exclusions. The Superintendence responded in 2009 by amending the regulations and adding to its conceptual framework the guidance provided by the IAIS Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets. This included a broader definition of microinsurance with qualitative parameters, allowed minimal exclusions, made premium payment flexible depending on the insured's cash flows, and extended types of allowed distribution channels. At the same time SBS introduced enhanced consumer protection requirements to ensure low income consumers are appropriately protected. This included easy to understand language and improved claims payments and processing. A new regulation which includes a definition of microinsurance with mixed qualitative and quantitative parameters, reduces requirements for working with distribution channels, simplifies microinsurance policy contracts, and which allows for the introduction of electronic policies and payment methods, will be published in the near future.

CIMA

The CIMA region consists of 14 countries in West Africa. The combined insurance market is 170 insurers, and an aggregate of 2 billion USD in premium (1% of GDP). Less than 10% of the population is covered. In 2012 in an effort to expand access to insurance, CIMA adopted microinsurance regulation, which, similar to that in Peru, took into account the guidance provided by the IAIS Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets. The regulation introduced incentives for the development of microinsurance by simplifying policy procedures, allowing certain types of products (index insurance), allowing the use of a range of distribution channels and simplifying training for agents, as well as reducing the capital requirements to formally underwrite insurance and encouraging national authorities to offer tax incentives to promote microinsurance.

An interesting difference between the two country experiences is that in the CIMA region, the underwriting process was changed. This has made it possible for communities, rather than just corporations or businesses, to underwrite contracts.

Cross-cutting lessons

The CIMA region and Peru highlighted a number of cross-cutting lessons with regards to implementing proportional regulation to grow inclusive insurance markets. This includes:

- Creating the space for microinsurance through an appropriate definition;
- Enabling a range of distribution channels; and
- Simplifying policy documents and disclosure requirements

Malaysia country example

Hui Lin Chiew (Bank Negara Malaysia) presented findings from their recent consultation with the industry to identify measures to develop the microinsurance market in Malaysia.

As a part of a suite of initiatives to enhance financial inclusion and insurance penetration, Bank Negara Malaysia has been conducting assessments in order to identify measures to develop the microinsurance and microtakaful market. The Islamic Financial Services Board defines takaful as a joint-guarantee initiative, whereby a group of participants agree among themselves to support one another jointly for the losses arising from specified risks, under the core principles of Tabarru' (donation), TaÑāwun (mutual assistance) and Prohibition of Ribā (usury).

To understand what the barriers were to expanding access to microinsurance and microtakaful, Bank Negara Malaysia conducted research that took stock of the current state of microinsurance and microtakaful markets; and then engaged the industry through a dialogue and survey to understand what insurers and takaful operators thought could be done to remove the key market barriers limiting their interest to enter these markets.

The respondents to the survey could be separated into two groups: those interested in microinsurance and those neutral or not interested in microinsurance. The following are the most popular measures requested from the supervisor by the industry:

Group 1: Positive about microinsurance	Group 2: Uninterested or neutral about microinsurance
1. Tax incentives 2. Building public confidence 3. Matchmaking to distribution channels	1. Subsidies 2. Mandatory insurance 3. A pool or consortium of insurers or takaful operators to be established for micro-insurance or microtakaful

Bank Negara Malaysia are now in consultation with the industry to develop a regulatory strategy to reduce these barriers and grow microinsurance and microtakaful markets.

Through this process they have been able to highlight three key consideration that all supervisors need to take into account when developing inclusive insurance markets:

1. **Overall microinsurance development strategy:** How would the industry or consumers react to the measure? Is this how we want the market to evolve? A clear strategy and understanding the behaviours of different subgroups inform which group to target and which incentives to prioritise.
2. **Sequencing:** How would the measure affect other measures? What are the prerequisites for the measure to be feasible? Some seemingly straightforward regulatory incentives require relatively complex pre-conditions.
3. **Role of regulator:** Should the measures be regulator-driven or industry-led? Not all suggestions as described above should necessarily be seen to fall within the regulator's role.

Questions and Discussion

This section summarises the discussions from the question and answer session of all four Consultation Calls.

? ***Is it possible to use the ICP 19 (Insurance Core Principles on the Conduct of Business), to provide regulatory incentives for insurance market development? And if yes, how can it be done?*** Michael McCord explained that ICP 19 is an important text for developing inclusive insurance markets. The focus of the Centre's work on the proportionality case studies is to expand access to insurance. ICP 19 reinforces this focus as it extends access to insurance to the conduct of business for insurers.

Peter van den Broeke from the IAIS added that a central point of ICP 19 is **fair treatment of customers**. One of the core principles reads that *"the supervisor sets requirements for insurers and intermediaries with regards to the timing, delivery and content of information provided to customers a Point of Sale"*.

This an example of the discretion that ICP 19 provides supervisors to lower disclosure requirements for market entry to make business sense for insurers, but the challenge remains to find the right balance between promoting the market and treating the customer fairly. In this case, a proportionate approach will need to consider the minimum level of information needed to treat customers fairly. For example, simpler products require less information during the sale and should be treated as such when proportionate regulation is introduced.

? ***There has been a lot of talk about conflict between the regulatory and market development functions of the regulatory authority. How can one ensure adequate market development without necessarily compromising on regulatory obligations? What are some of the interventions that have been tested in some markets from which lessons can be drawn?*** Michael McCord explained that this issue is more nuanced and that both functions can actually go hand in hand. Supervisors need to consider the application of insurance core principles in a way that recognises both the nature of the products and the need for consumer protection.

Luc Noubissi from the CIMA region presented his view that **it is not the role of the supervisor to provide incentives for the industry to enter the market.** Microinsurance is targeted at the low-income segment of the population and CIMA is very concerned with the protection of these consumers. He believes that the measures introduced by CIMA enable the industry to provide insurance to low-income groups while at the same time protecting these vulnerable segments of the population. It does not, however, focus primarily on incentivising the industry, but rather on protecting consumers. His opinion is that the title of this consultation call, and some of the terminology used, is misleading. Rather than speaking about 'incentives', it might be better to speak about 'means to achieve proportionality', i.e., to adapt regulation to the nature and complexity of microinsurance markets, so that microinsurance is made available to low-income populations in way that still protects them as policyholders. Thus the real focus in this discussion should be on achieving consumer protection, and how proportional regulations could be used to do so.

? ***Did any of the companies responding to the survey mention that AML/CFT[1] regulations would be an important factor for them in entering or staying in the microinsurance market?*** Flexibility in KYC[2] and other requirements came out as number 22 of 41 in the survey. Michael McCord shared his surprise at this result, but felt it might have more to do with the question of sequencing. Overall, insurers tend to see this as an issue that will become important further down the line, or have simply not considered it yet. Another explanation might be that many jurisdictions already have certain AML/CFT or KYC waivers under certain limits, or might be considering them now. This is something to be researched further.

? ***How can a regulator use awareness as a tool for market development?*** Education can help with market development in a number of ways. The most important way consumer education contributes is that it helps clients protect themselves. Through understanding what is supposed to be on offer, how it is supposed to be offered, and what service is supposed to accompany these products, consumers can hold insurers accountable themselves. However, Michael McCord did not necessarily advocate that the regulator should have a major role in consumer education. The more important task for the regulator, in terms of awareness, is to make sure that there is a complaint mechanism that is fair and proportionate to the market, and that consumers are aware of that mechanism.

1 Anti-Money Laundering/Counter Funding of Terrorism
2 Know Your Client

What advantage did SBS Peru derive from defining microinsurance? Mirla Barreto of SBS Peru explained that defining microinsurance created a flexible space to grow the microinsurance market. If there is no specific microinsurance regulation, it cannot be applied, and it becomes harder for this type of insurance market to develop.

If there is no approval process for products, how does one guarantee the good quality of a product? Mirla Barreto indicated that in Peru a product can be suspended and the company held responsible at any moment in time.

Should distribution channels for microinsurance be the same as for mass products? Andrea Camargo of MiCRO explained that it depends on the specific interest of the regulator. For example Peru does have separate regulations for micro and mass insurance with specific requirements for distribution channels for microinsurance and for mass marketers respectively. When comparing the requirements, the regulation of mass insurance sets up requirements that could be seen as stricter to those set up for distribution channels for microinsurance. In practice mass marketers can distribute microinsurance products if they comply with the requirements and vice versa. When two sets of regulation are present it is important for the supervisor to review them carefully and view them together. Mirla Barreto from SBS added that when you are considering introducing two sets of regulation you need to consider the balance between the regulatory and market development function of the regulator. Excessive regulation is not helpful and it is more important to know when to regulate. For example in Peru microinsurance has fewer regulatory requirements than mass insurance for distribution channels. However, microinsurance providers may also offer mass insurance product. It is therefore left to the industry's discretion.

Access to Insurance Initiative
Hosted by GIZ Sector Project Financial Systems
Approaches to Insurance
Deutsche Gesellschaft für Internationale
Zusammenarbeit (GIZ) GmbH
Dag-Hammarskjöld-Weg 1-5
65760 Eschborn, Germany

Telephone: +49 61 96 79-1362
Fax: +49 61 96 79-80 1362
E-mail: secretariat@a2ii.org
Internet: www.a2ii.org

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Hosted by: