

Access to Insurance Initiative

A global programme for sound regulatory and supervisory frameworks

5th Consultation Call: 28 August 2014, 10 am CEST

“Product Oversight in Inclusive Insurance”



- 1.** Different Approaches of Product Oversight
(Michael Hafeman)

- 1.** Product Oversight from an Inclusive Perspective
(Martina Wiedmaier-Pfister)

- 1.** Country examples
 - a)** India/IRDA (10am) - Sriram Taranikanti
 - b)** South Africa/FSB (10am) - Jacky Huma
 - c)** Europe/EIOPA (10am) - Alexandra de Jong



1. Determining your approach to product oversight

- What are your objectives?
 - What are the biggest risks to their achievement?
 - How effective are the mitigants and remedies?
- The answers to these questions can guide you to an appropriate approach



What are your objectives?

- Promote fair treatment of policyholders
 - Reduce risk of insurer failure
 - Encourage innovations to enhance access
 - Maintain an orderly market
 - Ensure compliance with legal requirements
 - Place primary responsibility on the insurer...
- Objectives can conflict, so weigh their importance



What are the biggest risks to their achievement?

- Products do not meet consumers' needs
- Unfair or excessive premium rates
- Inappropriate policy provisions or unclear wording
- Inadequate premium rates
- Untested approaches to marketing, distribution, premium collection, administration...
- Operational failures



How effective are the mitigants and remedies?

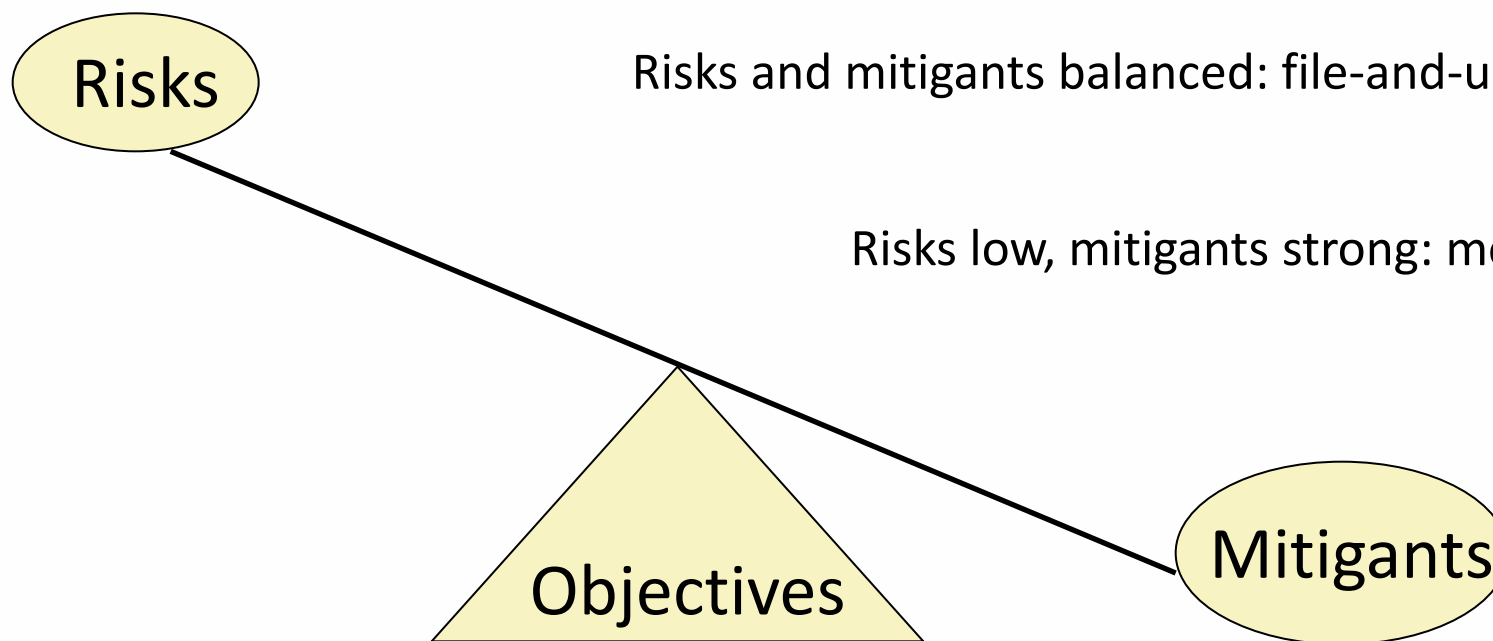
- Technical capabilities of the insurers
- Product development oversight by the insurers
- Market conduct oversight by the insurers
- Capabilities of the distribution system
- Level of disclosure required
- Familiarity of consumers with the products
- Capacity of the supervisor to provide oversight
- If a problem occurs, what is the exposure of consumers to loss?
Can losses be recouped?



Risks high, mitigants weak: pre-approval

Risks and mitigants balanced: file-and-use

Risks low, mitigants strong: monitor



2. “How effective are the mitigants and remedies?”

...in the perspective of inclusive insurance markets

- **Technical capabilities of the insurers**
 - are often low, takes time to build them
 - of the MI products registered, often, only a small share is marketed effectively and is producing massive sales

- **Market conduct oversight by the insurers and**
- **Capabilities of the distribution system**
 - innovative channels are often outside of the regulated sphere
 - masses of agents and changing agents
 - new approaches to controls by insurer required



- Level of disclosure required
 - what is understood by the client?
- Familiarity of consumers with the products
 - generally low!
- Capacity of the supervisor to provide oversight
 - staff is new to MI
 - can takes 6 months until a product is approved
- If a problem occurs, what is the exposure of consumers to loss?
Can losses be recouped?
 - one bad experience can “kill the relationship”
 - cost of complaints can be prohibitive for client





3a) Insurance in India - Background

- India - a growing market both in respect of Life and non-Life Products
- The Insurance sector was opened for private participation in the year 2000
- Prior to that only public sector companies were operating
- Currently 24 life insurance, 23 Non-Life insurance companies and 5 standalone health insurers are operating in the country
- One Indian Reinsurer is also present in the country



Product Design in India

- Product Design is one of the critical components of Market Conduct
- Specific relevance to Inclusive Markets comprising low income segments & low financial awareness
- Guidelines for Product design issued by IRDA
- Similar guidelines issued for Microinsurance and for targetting Rural/Social sectors
- Specific targets given to each Insurers in Rural/Social sectors



Product Oversight in Inclusive Insurance

- Product oversight in India is done by Regulator through File & Use system
- Product Approval Committees consisting of Actuaries and subject matter experts involved
- Each filed product is analysed from Actuarial angle, and Compliance with Regulations
- Simplicity of language in policy forms and Sales literature also ensured
- Every Approved product is given UIN (Unique Identification Number)
- Similar procedure followed for all products including those for Inclusive markets
- Microinsurance products are specifically approved



Product Oversight in Inclusive Insurance

- Micro Insurance Products play a very important role in Inclusive markets.
- Micro Insurance in India defined in terms of Product parameters such as
 - : Extent of Risk coverage (Sum Assured)
 - : Certain product categories are allowed
- Products are reviewed by Regulator through File and Use system and approved as MI Products.
- Regulations allow higher remuneration to intermediaries
- Additional services at doorstep of customers - relevant for remote inaccessible areas.
- Regulations under review to introduce more safeguards
- More protection to customers from inclusive segments



Product Oversight in Inclusive Insurance

No. of Products in

- Life : About **500** of which **14** products are Micro Insurance products.
- Non Life : About **2300** Products/Add-ons of which **95** are Micro Insurance Products
- Health : About **566** of which **16** products are Micro Insurance Products



Product Oversight in Inclusive Insurance

Product Features needed for Inclusive markets

- Simple & Inexpensive
- Easily understood
- Bought and not sold products
- Distribution cost involved is lesser



Product Oversight in Inclusive Insurance

- Proportionality issues – Financial Inclusion vs Consumer Protection
- IRDA liberal in Licensing Process and Commissions
- Limited products sold through 125000 Common Service Centres

3b) South Africa – Microinsurance Product Features and Standards)

(Policy proposals published in July 2011)

- **Risk-only policies**
 - Only risk benefits with no surrender value.
 - No savings component is included
- **Defined benefit caps**
 - A maximum benefit of R50 000 (USD4 663) per insured life, per insurer for any insurance related to a death event.
 - A maximum benefit of R50 000 (USD4 663) per insured life, per insurer for all other risk events.
 - A maximum benefit of R100 000 (USD9 326) per person, per insurer, per contract period for all insurance on assets only



(Policy proposals published in July 2011)

- **Maximum contract term**
 - Contract term of up to but not exceeding 12 months, i.e. annually renewable contracts with annually renewable premiums.
- **Underwriting**
 - MI insurers should be able to underwrite policies in the manner they consider most appropriate, be that on an individual or group basis
- **Waiting periods**
 - Waiting periods will be at a maximum of 6 months for death and disability. No waiting period for accidental death



(Policy proposals published in July 2011)

- **Exclusions**
 - No exclusions will be allowed for pre-existing conditions.
 - Exclusions would be allowed for 2 years in life policies in respect of suicide only
- **Right to monetary benefit**
 - The right of monetary benefit should be allowed but no administration fees should be charged to the monetary benefit
- **Claims payments**
 - All valid microinsurance claims should be paid within a period of 48 hours after the insurer received all the requisite documentation.



(Policy proposals published in July 2011

- **Grace period**
 - Microinsurance products should have “same terms reinstatement” provisions; should reset to 1 month on reinstatement.
- **Actuarial certification**
 - Initial pricing and subsequent price changes on microinsurance policies have to be signed off by an actuarial technician
- **Product regulation**
 - Product review will take place on a file and use basis.



- Who is EIOPA?
- Product Oversight and Governance in the EEA:
 - o Current situation:
 - Few countries have relevant requirements in place
 - Product pre-approval not allowed
 - o Consumer protection issues (examples):
 - Mis-selling of unsuitable products
 - Poor product design

- High-level principles for banking, securities and insurance sectors (published in 2013; available at <https://eiopa.europa.eu/joint-committee/index.html>)
- On-going initiative under EIOPA's lead:
 - Guidelines: addressing activities of manufacturers
 - Public consultation anticipated in Q4 2014 (more details to become available at <https://eiopa.europa.eu/>)
- Future plans:
 - Address also distributors



eiopa
EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

Questions?

Alexandra de Jong
Expert

Consumer Protection and Financial Innovation

Alexandra.dejong@eiopa.europa.eu

www.a2ii.org

The Initiative is a partnership between:



Hosted by:

