Reflections and projections: inclusive insurance supervision

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Ten years is a meaningful milestone for the A2ii and all involved. To mark this event, the A2ii has been running its #A2ii10 campaign throughout 2019. This includes launching an interactive historical timeline to hear from some of the key figures in A2ii's journey. For a more in-depth reflection on the past 10 years of progress in the realm of inclusive insurance regulation, see the publication "A2ii: 10 Years On" on the A2ii website. All material from the 10-Year Anniversary Conference, including the agenda and presentation slides, can be accessed on the A2ii anniversary page.

Contents

SUMMARY

On 2–3 September 2019, over 70 insurance supervisors, development partners, practitioners and leading experts in inclusive insurance[1] gathered in Frankfurt to participate in the 10-Year Anniversary Conference of the Access to Insurance Initiative (A2ii). Over a series of panels, discussions and breakout groups, the community reflected on the importance of inclusive insurance, the current state and impact of inclusive insurance regulation, as well as the opportunities and challenges that lie ahead. Seven key messages emerged overall. These messages offer food for thought for insurance supervisors, and will also guide the work of the A2ii moving forward.

INCLUSIVE INSURANCE MATTERS: Inclusive insurance can contribute to national development objectives and the Sustainable Development Goals (SDGs). Yet, the role of insurance largely remains unrecognised and untapped by policymakers. Insurance supervisors can – and should – pursue inclusive insurance development and engage with policymakers, using the SDGs as a basis for discussion.

LEAD BY EXAMPLE: There is a clear role for supervisors in leading financial inclusion and market development efforts. Depending on the market context, supervisors can issue supportive regulation, bring together relevant stakeholders or put in place key infrastructure. An explicit market development mandate can be helpful in this regard.

DON'T REINVENT THE WHEEL, BUT DON'T COPY AND PASTE: Over the past decade, many supervisors have gained experience in inclusive insurance regulation, and this collective knowledge can be leveraged. However, it is important to take different stages of market development and the market context into account. Simply replicating other countries' regulations may not work.

LISTEN BEFORE REGULATING: Insurance supervisors need to have an open and constructive dialogue with the industry to keep pace with innovation. A few supervisors that have seen significant progress in their inclusive insurance markets engaged with the private sector from the beginning. However, it is important to strike a balance between regulatory certainty and flexibility.

1 Attendees comprised of key figures in the founding, support and leadership of A2ii; practitioners with longstanding microinsurance experience; insurance supervisors from 25 countries (Austria, Brazil, Costa Rica, Gabon, Germany, Ghana, Jamaica, Japan, Kenya, Macedonia, Malawi, Malaysia, Morocco, Namibia, Pakistan, South Africa, Taiwan and the United Kingdom); and representatives from international organisations, academic institutions and development partners (Agence Française de Développement, Asian Development Bank, Cenfri, Consultative Group to Assist the Poor, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Financial Sector Deepening Africa, Financial Stability Institute, German Federal Ministry for Economic Cooperation and Development BMZ, Insurance Development Forum, International Actuarial Association, International Association of Insurance Supervisors, International Labour Organization, MicroInsurance Centre at Milliman, Microinsurance Network, Ministry of Foreign Affairs of the Netherlands, Organisation for Economic Co-operation and Development, The International Center for Insurance Regulation at Goethe University Frankfurt, Toronto Centre and the University of Cambridge Institute for Sustainability Leadership).

COORDINATE WITH OTHER BODIES: Supervisors need to coordinate with other supervisory authorities and public bodies with different responsibilities and skillsets. This is particularly key in the face of changing insurance business models due to digitalisation and cross-cutting policy challenges like climate change.

MEASURE IMPACT BUT OPTIMISE: Understanding what has or has not worked in the past is essential to guide future regulatory measures. Documenting these lessons will also enable countries to learn from the experiences of one another. To measure impact, data is paramount. However, it is important to ensure that the data is meaningfully utilised, and that data collection does not disproportionately burden the industry.

BE PREPARED FOR FUTURE DEVELOPMENTS: Supervisory work will become more complicated due to technological developments. This is an opportunity for inclusion, but it also brings exclusion risks and consumer protection challenges. Regulations may also become obsolete as new business models emerge. Supervisors will need to adapt their regulations and processes, as well as build capacity.

aii 10 years
access to insurance initiative

KEY MESSAGES

INCLUSIVE INSURANCE MATTERS

Inclusive insurance can contribute to national development objectives and the SDGs. Yet, the role of insurance largely remains unrecognised and untapped by policymakers. Insurance supervisors can – and should – pursue inclusive insurance development and engage with policymakers, using the SDGs as a basis for discussion.

Insurance can support sustainable development in three dimensions: social, economic and environmental. Insurance improves individual and household resilience by mitigating adverse financial shocks while facilitating households' access to other services such as credit, health and education. In addition, insurance also builds the resilience and productivity of small businesses. It transfers business risks, encourages steps to prevent or reduce risk, and facilitates access to credit by reducing borrower risk. Insurance can help governments cope with natural disasters and climate change, by strengthening country resilience and reducing recovery costs for the public sector. Finally, through their role as institutional investors, insurers can promote sustainable investment and infrastructure development.

Insurance can be applied in a multitude of policy initiatives. It, directly and indirectly, impacts most of the SDGs and can thus be a powerful policy tool. Insurance directly contributes to SDG 1 (End Poverty), SDG 2 (End Hunger), SDG 3 (Good Health and Well-Being), SDG 5 (Gender Equality), SDG 8 (Decent Work and Economic Growth) and SDG 13 (Climate Action). Indirectly, even more SDGs benefit from insurance.[2] However, it is only mentioned once in the targets associated with the SDGs. This is indicative of how insurance typically does not receive enough consideration in international development fora and national development plans. Even where financial inclusion is mentioned, insurance often does not feature or is not discussed in depth. The General Superintendence of Insurance of Costa Rica (*Superintendencia General de Seguros de Costa Rica*, SUGESE) shared that in Costa Rica, there are ongoing government initiatives targeting some of the SDGs, but national development plans do not place much emphasis on financial inclusion. Yet, experience has shown that there is a clear gap for insurance to fill. In 2016, a hurricane impacted 50,000 people in Costa Rica, affecting infrastructure and economic activities. Only 3% of the total losses were insured.

"If we are serious about insurance being a tool to reduce poverty, we need to work within SDG goals – this is not just relevant at the global donor level but also for the role of the policymaker."

Dr. Ana Gonzalez Pelaez, Fellow, Cambridge Institute for Sustainability Leadership

2 See "Inclusive Insurance and the Sustainable Development Goals. How insurance contributes to the 2030 Agenda for Sustainable Development" (GIZ, 2017). Available at https://microinsurancenetwork.org/sites/default/files/Inclusive%20Insurance%20and%20the%20Sustainable%20Development%20Goals%20.pdf

Why has insurance not received the consideration it deserves? A couple of reasons came up in the discussions. Firstly, quantitative data on insurance coverage and on the impact it has in promoting development objectives is lacking. In most developing countries, there is no precise data on how many households are covered by insurance, let alone data on women's or rural communities' access to insurance. Without such data, it is difficult to make a strong case to policymakers. Furthermore, the concept of insurance is abstract and the perception of insurance is frequently negative. The German Federal Ministry for Economic Cooperation and Development *(Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung,* BMZ) shared a powerful analogy: insurance is like vaccination. It requires an immediate step to reap a later reward. As such, despite its potentially life-saving benefits, many people may not appreciate its benefits today.

Insurance is increasingly gaining more prominence as a viable policy instrument. However, much more work can be done to strengthen the case for insurance, and central to this task are insurance supervisors. Insurance supervisors are well-placed to engage with policymakers and contribute to national policy goals, in the areas of health, food security, employment and economic priorities. To further support supervisors' efforts in this regard, as part of its new Strategic Plan 2020 – 2025, the International Association of Insurance Supervisors (IAIS) plans to advocate amongst policymakers on the role of insurance in supporting economic development and supporting broader policy objectives such as poverty reduction and disaster resilience.

Supervisory bodies can actively reach out to policymakers to show how they and insurance can support national development. To start with, more concrete case studies and digestible information for people from non-insurance backgrounds are needed. The SDGs provide a powerful underlying framework for such a discussion and coordination to take place. A study by the Cambridge Institute for Sustainability Leadership found that mutual microinsurance, enabled by adequate regulation, can contribute to the SDGs by increasing the protection and resilience of low-income communities. This study illustrates the link between insurance and SDGs, and is an example of how this link can be articulated to policymakers[3].

3 See "Mutual microinsurance and the Sustainable Development Goals: An impact assessment following Typhoon Haiyan" (CISL, 2019). Available at:
https://www.cisl.cam.ac.uk/resources/sustainable-finance-publications/mutual-microinsurance-inclusive-development

LEAD BY EXAMPLE

There is a clear role for supervisors in leading financial inclusion and market development efforts. Depending on the market context, supervisors can issue supportive regulation, bring together relevant stakeholders or put in place key infrastructure. An explicit market development mandate can be helpful in this regard.

"Creating an enabling supervisory framework to address the protection gap is an imperative, not a debate."

Jonathan Dixon, Secretary-General, IAIS

In his keynote address, the Secretary-General of the IAIS made it clear: financial inclusion should be an imperative for insurance supervisors. It complements, rather than competes with, the traditional supervisory objectives of policyholder protection and financial stability. It is difficult to argue that supervisory objectives are truly achieved if there are millions of potential policyholders who remain without any protection at all. Moreover, experience from the last global financial crisis shows that access to a range of good-quality financial services, including insurance, by those most in need helps reduce the risk of a future financial crisis. Therefore, a clear takeaway is that through adapting regulatory and supervisory frameworks to support inclusive insurance, supervisors can contribute to improved standards of living in the long run.

In some countries, the insurance industry is proactive and on the lookout for opportunities to offer inclusive insurance products. In these circumstances, supervisors only need to be enablers or ensure regulation is supportive. As Pioneer Insurance said, regulators simply need to "not stand in our way". In contrast, in some other insurance markets, there is inertia. As the insurance industry is making healthy profits from traditional insurance market segments, there is little incentive to innovate and to reach out to currently underserved households and businesses. In these cases, supervisors could more proactively lead market development and design regulations to drive innovation.

"Regulators have opened the door, but there are no guests."

Hennie Bester, Director, Cenfri

"Regulators seem to think that people need to have encyclopaedic knowledge of product to buy, but it might actually put people off."

Craig Thorburn, Lead Insurance Specialist, World Bank

An explicit market development mandate can support the supervisor in taking on this leadership role. This means, firstly, developing enabling regulatory frameworks that balance market development and consumer protection. Such frameworks can foster innovation, responsible market development, more diverse products and distribution channels and, ultimately, better financial services. Supervisors can bring stakeholders together, be it policymakers or the industry. Supervisors can also facilitate the creation of key infrastructure, such as data collection.

Bank Negara Malaysia (BNM) shared how they took the lead in driving inclusive insurance initiatives, recognising that the role needed to be filled – "no one else was doing it", and some implementation lessons so far. The Namibia Financial Institutions Supervisory Authority (NAMFISA) spoke about the reality of competing regulatory priorities – that pensions development was currently a more urgent challenge to resolve, and therefore NAMFISA has not been able to devote much time and resources to inclusive insurance. These stories yielded important insights: not everything a supervisor tries will yield immediate results or work perfectly. What is important is the will to examine and learn from what did not work, stay flexible to adapt to changing conditions and most importantly – collect evidence. Secondly, regulatory development takes a long time, and supervisors have to be realistic about such constraints. Supervisors will not be able to focus on everything simultaneously. They therefore need to prioritise which segments and areas to focus on.

"We believe the regulators and supervisors should take the driving seat [to advance financial inclusion]."

Peter Braumüller, Managing Director, Insurance and Pension Supervision, Austrian Financial Market Authority and Chair of the A2ii Governing Council

DON'T REINVENT THE WHEEL, BUT DON'T COPY AND PASTE

Over the past decade, many supervisors have gained experience in inclusive insurance regulation and this collective knowledge can be leveraged. However, it is important to take different stages of market development and the market context into account. Simply replicating other countries' regulations may not work.

The past ten years have seen significant progress for the field of inclusive insurance and its regulation[4]. At least 48 jurisdictions either have inclusive insurance regulations or are in the process of developing them. Supervisors are increasingly exchanging lessons learnt with peers across the world, as evident from the jurisdictions represented in the room. Supervisors from Brazil, Costa Rica, Kenya, Malaysia, Namibia, Pakistan, the Philippines and South Africa shared their experiences on the panels. It was also evident that many emerging markets and developing economies are today at the forefront of insurance developments, especially in terms of how regulators are championing market development, as well as how their industries are seeing rapid innovation in mobile and digital platforms. Participants concurred that it was important to study what has or hasn't worked in these 48 jurisdictions.

4 See "A2ii: 10 Years On" (A2ii, 2019), a publication that reflects on the forces of change that have shaped inclusive insurance in the past ten years, the progress made in inclusive insurance and regulations, achievements so far and the road ahead. Available at: https://a2ii.org/sites/default/files/2019-09/a2ii10yearson.pdf

"My job is to explain and listen."

Grace Mohamed, General Manager, NAMFISA, Namibia

"Market conditions will always trump proportionality – we need market-appropriate regulations."

Hennie Bester, Director, Cenfri

Insurance supervisors around the world face similar challenges, but their responses need to match unique local market conditions. Policy solutions that work in one country might not work in another. Focusing on licensing could be appropriate in one market, such as the Philippines, but distribution could be more key in another, such as Brazil. The success of measures such as mandatory products would depend on different factors in the local market. Some illustrative examples include:

- Informality is a well-known issue in inclusive insurance. In the Philippines, a dedicated licensing category for microinsurance providers was created and many previously informal insurance providers were licensed and brought into the purview of the regulator. But under what circumstances does creating a special category make sense? The Securities and Exchange Commission of Pakistan (SECP) shared how a dedicated license did not have the same impact in Pakistan, as most of the insurance were provided through microfinance institutions and mobile network operators, who already partnered with licensed insurers.

- Cultural contexts and therefore demand conditions might also differ. Malaysia, for instance, is looking at innovative and digital distribution channels to react to changing demographics and an overall younger population. The Financial Sector Conduct Authority (FSCA) of South Africa shared their observation that customers still prefer face-to-face interaction, and this can't simply be taken away and replaced with digital interaction even if digitalisation brings about higher cost efficiency. In another anecdote, Brazil shared how insurers designed life insurance with a lottery component as a marketing strategy, as Brazilians tend to be averse to talking about death but are fond of lotteries.

LISTEN BEFORE REGULATING

Insurance supervisors need to have an open and constructive dialogue with the industry to keep pace with innovation. A few supervisors that have seen significant progress in their inclusive insurance markets engaged with the private sector from the beginning. However, it is important to strike a balance between regulatory certainty and flexibility.

In the coming years, digitalisation will lead to fundamental changes in the insurance sector. Despite wide-ranging local market contexts, a universal lesson that has emerged is that open and constructive dialogue between the supervisor and the industry is a prerequisite to enabling innovation and well-functioning inclusive insurance markets. The pace of innovation, whether in terms of new technology or business models, clearly outpaces the time it takes to develop regulation. This makes it challenging for regulators to stay up to date and adapt accordingly.

In Brazil, dialogue between the supervisor and the industry was the first step towards developing a microinsurance sector. This allowed stakeholders to better understand market dynamics, existing barriers and mutual challenges, including legislative hurdles. Such dialogue has enabled the Superintendence of Private Insurance (Superintendencia de Seguros Privados, SUSEP) to adopt an activity-based regulatory approach where any party carrying out identified insurance activities has to comply with the insurance regulation requirements, regardless of the entity type.

Experiences in Ghana and the Philippines have demonstrated that working with the industry can make a difference to final market outcomes. In both countries, supervisors spent time understanding market developments and business models and consulting with the industry prior to issuing binding rules. Efforts were also made to ensure the industry appreciates the supervisors' concerns, particularly in relation to consumer protection issues. Both of these countries have dynamic inclusive insurance markets.

Engaging in dialogue is not only important at the initial stages of market development but on a continuous basis. Openness to new approaches is essential. In the words of the Insurance Regulatory Authority (IRA) of Kenya, regulators need to be able to "come into the room with a blank sheet of paper" rather than a list of pre-identified requirements and restrictions. In line with this thinking, IRA Kenya will soon launch a regulatory sandbox and innovation hub to build an innovation-friendly ecosystem and stimulate market development.

On the other hand, regulatory certainty is also important. Clear regulation provides clear perimeters within which the industry can think and work to create new products. It is frequently underestimated how high the cost of delayed regulation can be. Particularly in situations in which legislation is delayed due to parliamentary processes, it is important that supervisors find ways to communicate with and provide regulatory guidance to the industry, such as by issuing circulars. Finding a balance between regulatory certainty and flexibility is thus fundamental to innovation and, in turn, access to insurance. This is can only be achieved by maintaining continuous dialogue with the industry. Dialogue is not a quick win. Experience has shown that patience and a commitment to finding solutions on all sides is needed to arrive at positive results.

COORDINATE WITH OTHER BODIES

Supervisors need to coordinate with other supervisory authorities and public bodies with different responsibilities and skill sets. This is particularly key in the face of changing insurance business models due to digitalisation and cross-cutting policy challenges like climate change.

FinTech developments are challenging the traditional silos of financial services. The use of digital platforms to distribute insurance are increasingly prevalent in Sub-Saharan Africa. Big Tech companies are showing interest in offering insurance because it allows them to acquire data that is beneficial for their core business model. One key issue that came up was on the increasing use of data in such arrangements, and how it poses consumer protection challenges and raises fundamental questions such as data ownership. What can regulators do, where are the red lines, and what instruments can they use to retain control over the insurance market? Answering this question necessitates interagency collaboration and coordination - with the data protection agency, for example.

Beyond national borders, cross-border coordination is also key. The increasing use of cloud computing and global cloud service providers, for instance, means that consumer data is increasingly stored in overseas servers and concentrated among a few dominant providers. The arising risks will need a coordinated global response. The challenges of harmonising across different countries' regimes might mean that an outcome-based approach, rather than compliance- or rules-based approach, is required. The role of the global standard-setters, and collaboration amongst them, is key in this regard.

Another field that would benefit from interagency coordination is climate change. Disaster and climate risk insurance are increasingly being discussed as a component of wider risk-management measures to tackle the effects of climate change, but insurance supervisors are not always part of these discussions. In several countries, agricultural ministries have been embarking on index-based insurance initiatives or have set aside budgets to subsidise agricultural insurance – many times without consulting or involving the insurance supervisor.

Similarly, in national efforts to promote financial literacy, insurance supervisors are not always involved in the development of national financial education strategies or in embedding insurance awareness into school curricula. As a result, insurance frequently receives little focus in comparison to other financial services. To ensure that insurance supervisors have a seat at the table from the beginning, greater efforts are needed to raise awareness among the respective public authorities in charge that insurance supervisors can contribute to these national efforts.

MEASURE IMPACT BUT OPTIMISE

Understanding what has or has not worked in the past is essential to guide future regulatory measures. Documenting these lessons will also enable countries to learn from the experiences of one another. To measure impact, data is paramount. However, it is important to ensure that the data is meaningfully utilised, and that data collection does not disproportionately burden the industry.

Well-intended regulation can have unintended or unforeseen consequences. Regulatory changes also do not take effect in isolation but are subject to market conditions, the political climate as well as technological developments. Moreover, regulation takes a long time to develop and affect final outcomes. All these factors make it challenging to anticipate the full impact of regulations at the outset. Tracing and understanding the impact of past regulations and measures can help guide future interventions. In theory, the soundest way of measuring impact would be randomised control trials[5]. In practice, this is often

5 A randomised controlled trial (RCT) is an experimental form of impact evaluation in which the population receiving the programme or policy intervention is chosen at random from the eligible population, and a control group is also chosen at random from the same eligible population. It tests the extent to which specific, planned impacts are being achieved. Source: UNICEF (2014)

not feasible. Second-best approaches to measuring the impact of regulation on access to insurance, therefore, need to be found.

The insurance penetration rate, measured by premiums as a percentage of national Gross Domestic Product, is the most widely cited indicator of the availability of insurance. However, in many aspects, it is not a meaningful or complete reflection of access to insurance. For instance, the insurance penetration rate can result in an inflated perception of access. In Namibia, the insurance penetration rate is 7%, which appears to be relatively high. However, funeral insurance makes up the majority of the figure, rather than a diversity of products reflecting the population's needs. The takeaway here is that no single measure is sufficient to evaluate impact.

This discussion turned to the need to triangulate different data sources. Beyond the insurance penetration rate, additional indicators include the number of people covered, the range of products offered and new distribution channels. The claims ratio was discussed at length. On one hand a very low claims ratio could be a sign that people do not know how to make a claim. Therefore a high number of policyholders would be meaningless because the protection would be ineffective. However, an industry participant offered some food for thought: If 1000 people buy a policy, but only 1 receives a claim, this would not mean that 999 people did not benefit. The intangible benefits matter: customers knowing they have bought insurance and changing their behaviour as a result of this policy. The comfort from simply having an insurance policy – "peace of mind" – can make a difference.

The Cambridge Institute for Sustainability Leadership shared research from the Philippines[6] showing that in the community-based models studied, among the mutual benefit association members who had life insurance cover, those who had a payout and those who had no payout recovered equally fast from Typhoon Haiyan. The research found that it was the financial education and the recovery strategies they had learned from being part of the wider insurance initiative that impacted their lives more broadly, even when no claims were paid. This underscored once again the importance of constructive dialogue with insurers - understanding the experience on the ground can inform the regulator's understanding of the indicators, especially where qualitative aspects are highly context-dependent.

6 See "Mutual microinsurance and the Sustainable Development Goals: An impact assessment following Typhoon Haiyan" (CISL, 2019). Available at:
https://www.cisl.cam.ac.uk/resources/sustainable-finance-publications/mutual-microinsurance-inclusive-development

How best to capture the emotional and social benefits of insurance? Should regulators go down this route? Emotional perception surveys, for example, can easily become anecdotal and the results are difficult to translate into regulation. There is also the danger of introducing too many new reporting requirements. Even if insurers were willing to collect data, they may not have the resources or capability to do so. In addition, by creating extra requirements and therefore higher compliance costs for the inclusive insurance sector, supervisors might create disincentives for insurers. In Peru, for instance, insurers decided to serve the same market through the traditional insurance route, to avoid the "extra hoops" associated with the microinsurance market. There are also number of countries in which supervisors have gathered vast amounts of data but do not have the skills or resources required to analyse these.

The Microinsurance Network suggested that supervisors could start from basics. It is important to first ensure that the well-established basic indicators are collected consistently and exhaustively, rather than to already venture into new territory. If complemented by demand-side studies, these indicators can reveal a lot of information on the impact of regulation and the need for future policy initiatives. It is also important to be strategic about the frequency and mode of data collection. Supervisors can require monthly, quarterly or annual reporting from the industry, or deploy consumer surveys and mystery shopping. To measure impact on a larger scale, it may even be sufficient to compare data every two to three years.

BE PREPARED FOR FUTURE DEVELOPMENTS

Supervisory work will become more complicated due to technological developments. This is an opportunity for inclusion, but it also brings exclusion risks and consumer protection challenges. Regulations may also become obsolete as new business models emerge. Supervisors will need to adapt their regulations and processes, as well as build capacity.

"Welcome to the future of insurance, as seen through the eyes of Scott, a customer in the year 2030."[7] Thus began the last session of the conference, where under the facilitation of the MicroInsurance Centre, participants mulled over a possible scenario of insurance in the future, and what this might mean for consumers, access to insurance, and regulators. The consensus was that new technology would bring benefits and opportunities for financial

"We need to become regulators 3.0."

Elias Omondi Otieno, Associate Actuary, IRA, Kenya

7 Article available at: https://www.mckinsey.com/industries/financial-services/our-insights/insurance-2030-the-impact-of-ai-on-the-future-of-insurance

> "Today, even an actuarial opinion is sometimes a black box to regulators." **Jonathan Dixon**, Secretary-General, IAIS

> "The challenge is to balance consumer protection and industry interests. If you can find a balance, your work is done."
>
> **Maria Augusta de Queiroz Alves**, SUSEP, Brazil

inclusion – but at the same time, the risks would also pose a significant challenge to supervisors. An overarching risk is that of greater exclusion. If digital models become the predominant way of accessing insurance, low-income communities lose out due to the digital divide[8].

A key area of concern was on the use of data. The use of Big Data and data analytics in insurance is not a bad thing in itself – better use of data has important benefits such as enabling more accurate pricing. However, it becomes a public policy question if such use of data has implications for inclusion of vulnerable communities. People exposed to greater risk, often the case for low-income groups, might be priced out of the market as more data becomes available on them. An example shared by the A2ii was as follows – in a case where pricing or underwriting is automated based on geographical risk factors, low-income communities who live in remote or disaster-prone areas might find insurance too expensive or simply unavailable to them.

Another point of deliberation was that with the increasing use of Artificial Intelligence, algorithms rather than people could be generating decisions on pricing and underwriting. Would supervisors have to supervise algorithms as a separate class of "entities" in its own right? It was agreed that it would ultimately still be humans – key control persons within the insurer – that are held responsible by the supervisor. However, supervisors would still face the difficulty of applying old regulatory ways to new business models, such as product approval processes of products where pricing is automated and calibrates according to policyholder behaviour. It is inevitable that supervisors will have to be able to deal with the algorithms behind the products.

As a whole, supervisors will need to prepare themselves for the future – firstly through regulation itself. Enabling regulatory frameworks can drive improvements in these areas by fostering innovation, responsible market development, more products, a wider range of distribution channels and, ultimately, better financial services. Supervisors will also have to address the challenge of regulations becoming obsolete – where regulations are not updated in time to keep up with technological developments. A case-in-point is the common legal requirement that insurance contracts must be effected through wet signatures.

8 The OECD defines the digital divide as "the gap between individuals, households, businesses and geographic areas at different socio-economic levels with regard to both their opportunities to access information and communication technologies (ICTs) and to their use of the Internet".

In some countries, no provision has been made for digital signatures, thus preventing the adoption of seamless digital models.

Supervisors may also need to reflect on their ways of doing work. When new business models emerge, supervisors typically develop new regulatory frameworks. Due to political and bureaucratic realities, this can take a long time. In one country's experience, the microinsurance regulatory framework was drafted ten years ago, but has not been implemented to date. An appeal from one industry participant was as follows: streamline, rather than introduce new regulations where possible. Creating new regulation on top of existing ones often create overlaps or loopholes that often reduces rather than increases regulatory clarity. Another idea put forth was that regulators and global standard-setters could "issue less papers and talk more to one another" – in other words, learning from peer exchange and dialogue rather than relying so much on written material.

Finally, supervisors will need to build internal capacity. The institutional set-up of the supervisor and staff composition, such as years and type of experience, are important. In general, it was agreed that supervisors should aim for diversity. Supervisors also need capacity building beyond inclusive insurance. For instance, gaining and retaining supervisory staff that understands technological developments is becoming increasingly important. Supervisors need to ensure that people with the technological expertise work in the supervisory authority and not only in the industry, but it was acknowledged that such expertise was expensive to hire. In some ways, this is a familiar challenge, as supervisors also have had to build internal actuarial expertise to be able to understand and have oversight of actuarial models used by insurers.

DEEP-DIVES: DIGITALISATION, CLIMATE RISK, SME INSURANCE AND DATA REPORTING

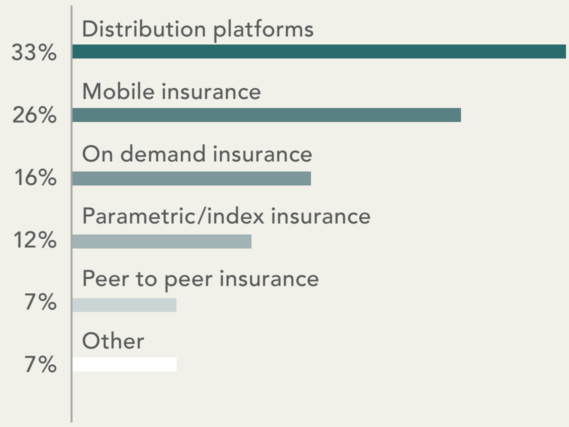
The conference broke into four groups to deep-dive into topics of their choice: (1) digitalisation and InsurTech, (2) climate risk insurance, (3) insurance for small and medium enterprises (SMEs) as well as (4) data reporting and monitoring. Participants delved into questions such as: What are some of the key challenges faced? What recommendations would you give to insurance supervisors? Below are key highlights of what participants had to say.

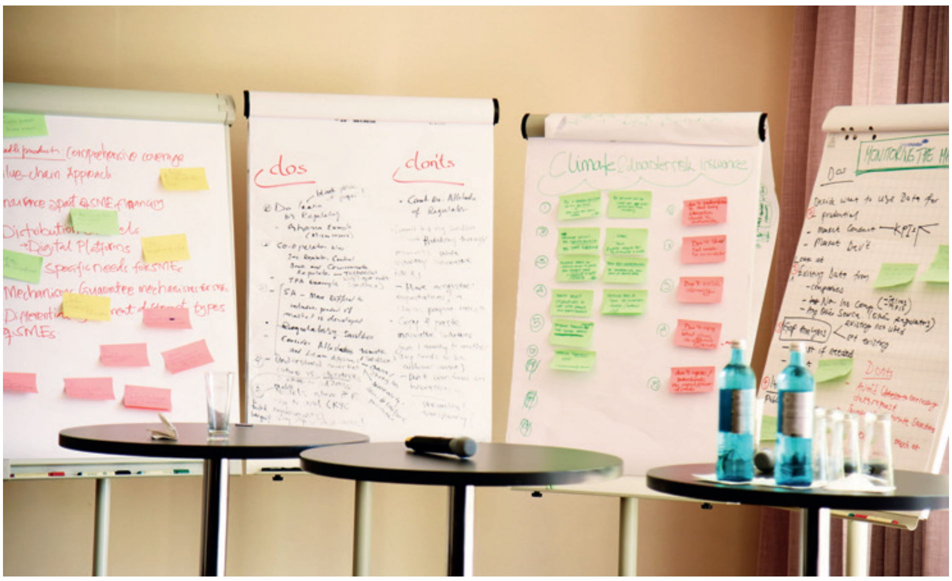
1. Digitalisation and InsurTech

RECOMMENDATIONS

- Learn before regulating
- Communicate with industry and provide regulatory clarity
- Understand your local market context; don't copy-and-paste solutions
- Cooperate with other regulators
- Understand the business model and the various applicable regulations
- Don't commit to a sandbox without first considering resources
- Have realistic expectations e.g. on claims pay-outs
- Don't focus on innovation for the sake of it

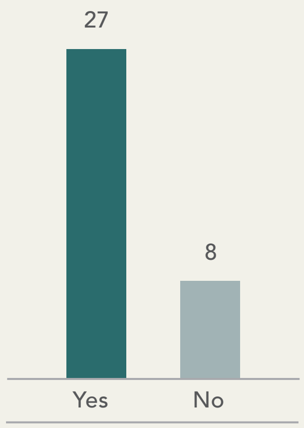
In which areas are innovations being developed in your jurisdiction?





2. Climate Risk and Disaster Insurance

Are you aware of any climate and risk solutions in your jurisdiction?



RECOMMENDATIONS

- Understand climate risks within your region through the use of data
- Enable public-private partnerships
- Consider a wide range of ways to incentivise the industry e.g. proportionate and innovation-friendly regulation, the role of mandatory insurance, taxes, etc.
- Build capacity, such as through cooperation with other supervisors and organisations such as A2ii
- Be champions of insurance – join forces with other agencies and ministries and raise awareness
- Don't forget:
  - The role of community-based organisations
  - The perspective of women – research shows that women are more severely impacted by climate change
  - The need for insurance to be financially sustainable
  - Pilots can support innovation but can damage trust in insurance if a product vanishes after the pilot is completed

3. Insurance for SMEs

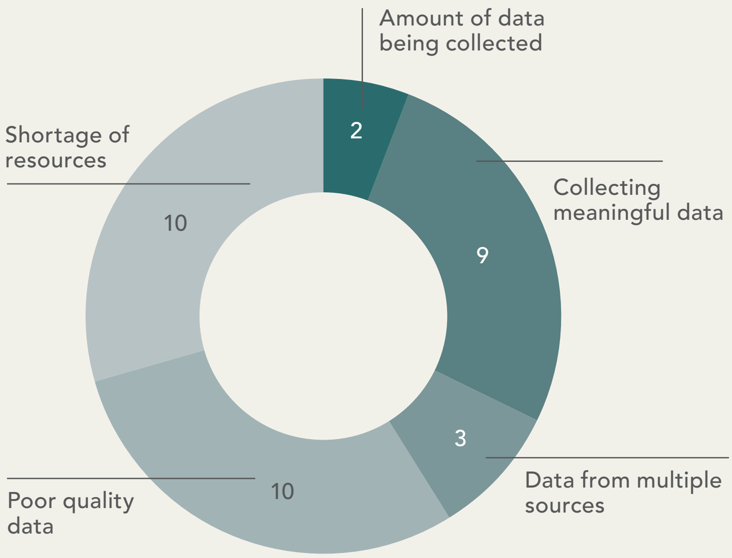
Barriers to access to insurance for SMEs

RECOMMENDATIONS

- Create awareness through financial education. Embed information on insurance as a risk management tool for SMEs.
- Engage stakeholders, including policymakers
- Have an SME-specific strategy
  - Tailor products to SME needs
  - Enable creative partnerships – digital platforms as distribution channels, bundling
  - Encourage insurers to understand the needs of the SMEs
- Check for unintended regulatory barriers

4. Data Reporting and Monitoring

Challenges faced in data collection



RECOMMENDATIONS

- Clearly identify the objectives of data: Prudential, market conduct and market development
- Identify any gaps
- Make full use of existing data, including other sources such as data from other regulators
- Provide validation when insurer provides data to ensure quality data is submitted. Automate where possible
- Avoid requesting unnecessary data from companies
- Avoid disproportionate sanctions and penalties
- Don't expect too much at once, particularly for new companies

Implementation Partner:

IAIS
INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

Supported by:

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Hosted by:

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