WEBINAR

Formalisation and Licensing Regimes

22 October 2020

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Formalisation and Licensing Regimes: the relevance of the topic for inclusive insurance

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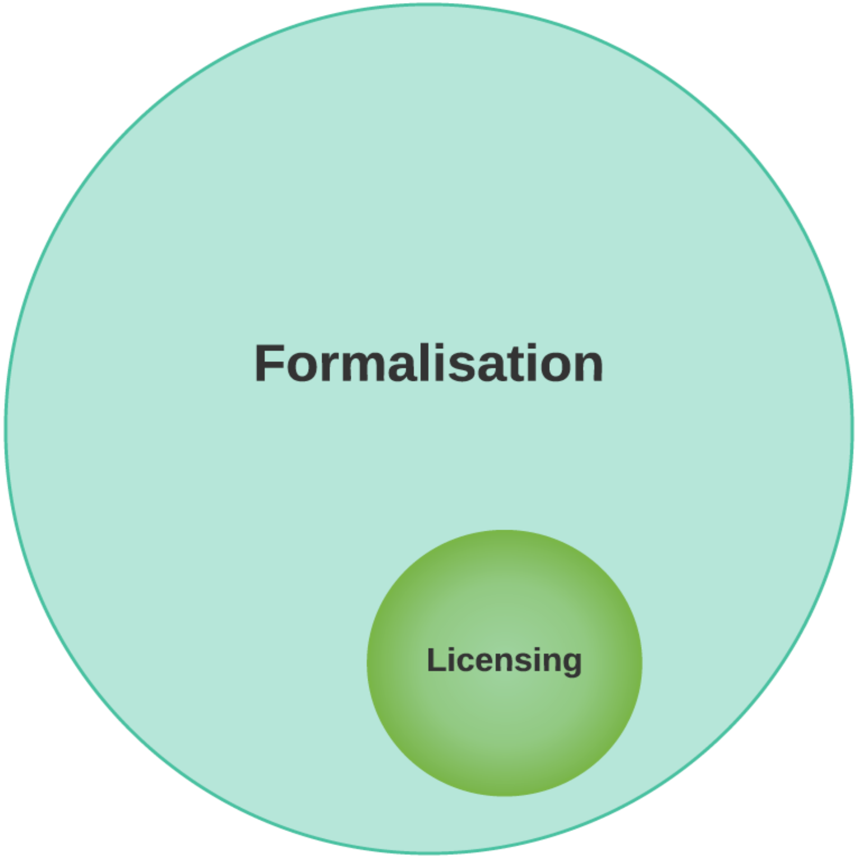
Conceptual Framework



"informal insurance ins undesirable, the existence of an informal sector may need to be formalised" IAIS, 2012

- **Formalisation:** a process to bring informal players and schemes into a formal regulatory and supervisory scope.
- **Licensing:** *"A legal entity which intends to engage in insurance activities must be licensed before it can operate within a jurisdiction".*

ICP4 - Licensing

Licensing contributes to **efficiency and stability** in the insurance sector.

Strict conditions formal approval through licensing of insurers are necessary to **protect consumers**.

The licensing procedure is the first step to ensure that **insurers can fulfill their obligations to policyholders**.

The requirements and procedures for licensing must be **clear, objective and public, and be consistently applied**.

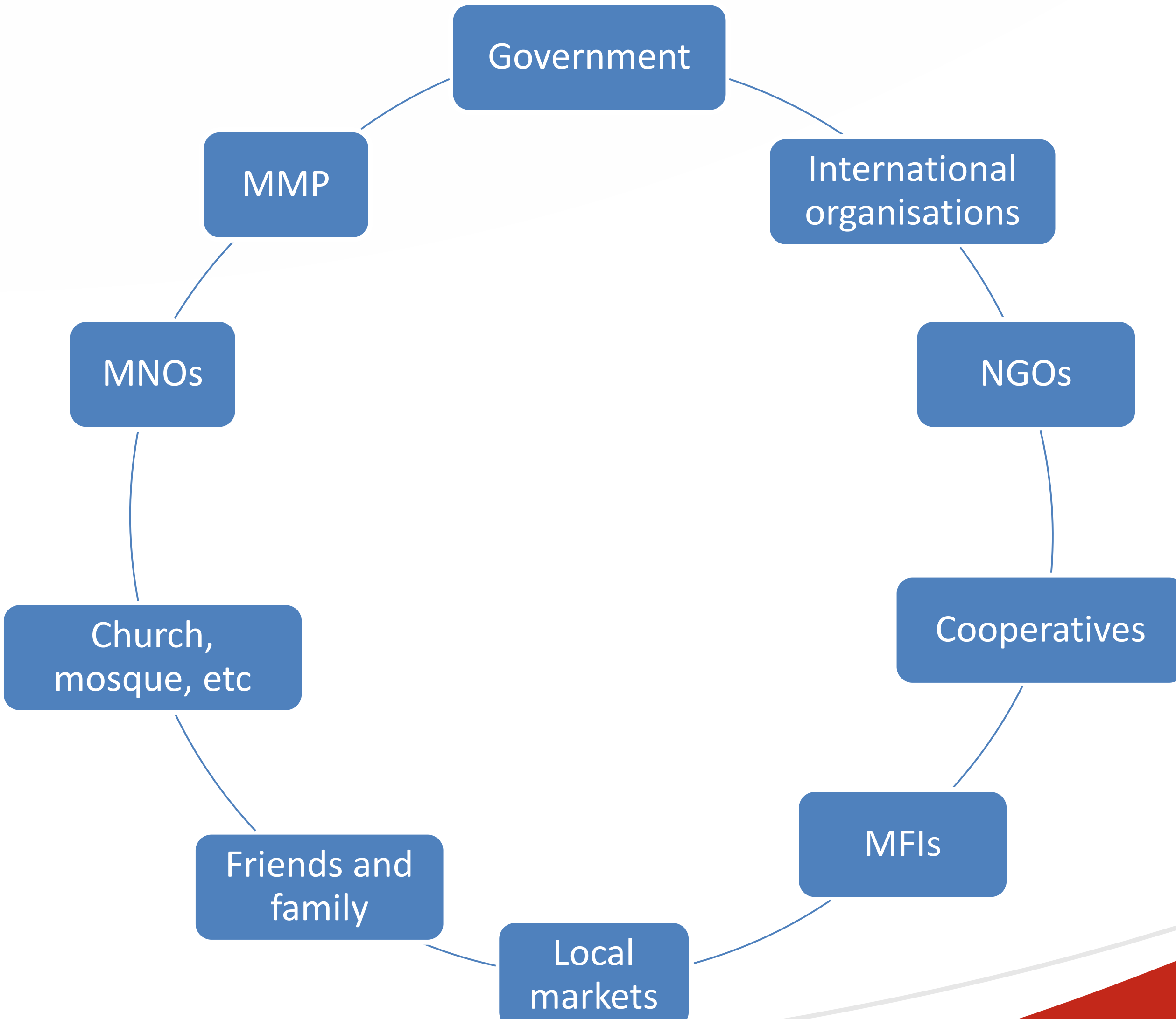
Licensing requirements and procedures **should not be used inappropriately to prevent or unduly delay access to market**.

Why is licensing relevant when we talk about inclusive insurance? (1)

1. Reaching **unserved and underserved populations requires adopting a consumer centric approach**

The characteristics of the consumer, their supporting networks and the way how they manage their risk **increase the chances of informality**

Who is part of their informal network?



Why is it relevant to talk about formalisation and licensing requirements in inclusive insurance? (2)

Demand factors:

1. Potential consumers generally **do not use formal risk transfer tools** to manage their risks.
2. Informal risk management tools are widespread – in some cases **insurance-like products are offered by informal providers**.
3. Generally they **do not trust insurers** or formal financial providers more in general.
4. Outreach is a challenge; traditional providers are not present or delivering services – **technology is an enabler to have innovative risk transfer tools.**

Why is licensing relevant when we talk about inclusive insurance? (3)

2. Innovative approaches and a vision that inclusive insurance can succeed are needed to encourage access to insurance…

but…

- Sometimes local insurers **do not have the skills and capacities** to innovate.
- Local insurers **are not driving the progress in digitalization and technology** that is stimulating insurance inclusion.
  - Big tech companies have advantages over traditional insurers: They have the data, existing customer base, and distribution platforms to successfully reach consumers in a more convenient and digital manner.
- Sometimes local insurers **do not want to be the spearhead** of inclusive insurance.
- Sometimes local insurers **do not see in inclusive insurance a financial opportunity**
  - This is very predominant in small countries or islands where the target market is very small

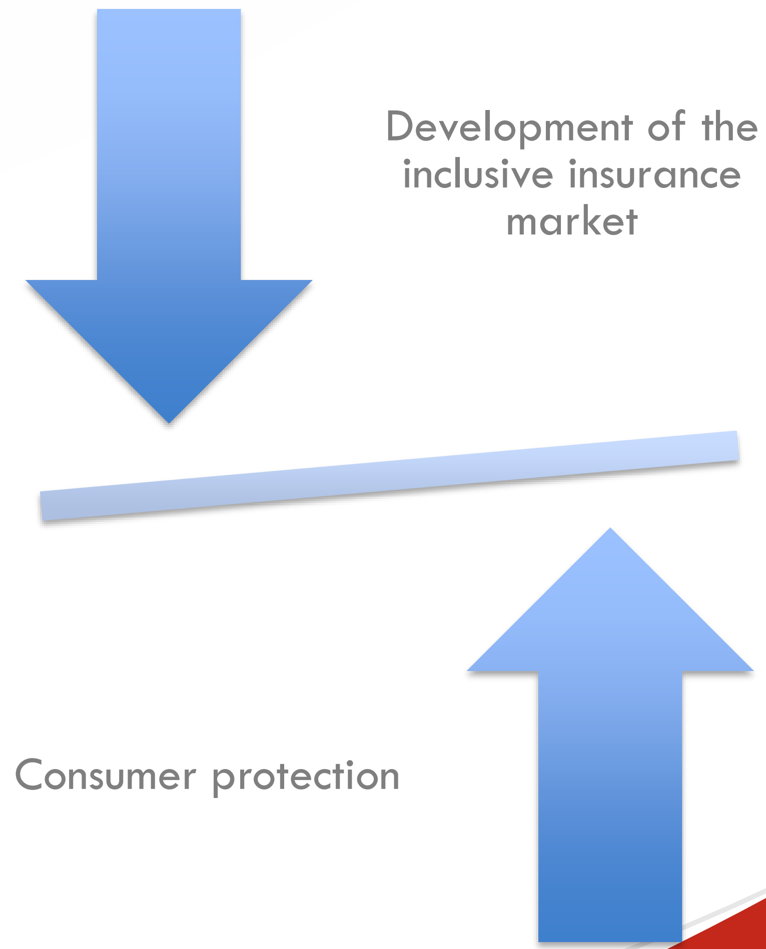
These supply factors increase the need of newcomers!

The need to apply the proportionality principle

The problem:
Licensing requirements could end up being barriers in such context!

There is a **need to encourage access to insurance – the pathway-:**

- Formalising informality in a **proportionate way**
- Enabling entry of newcomers in a **proportionate way**



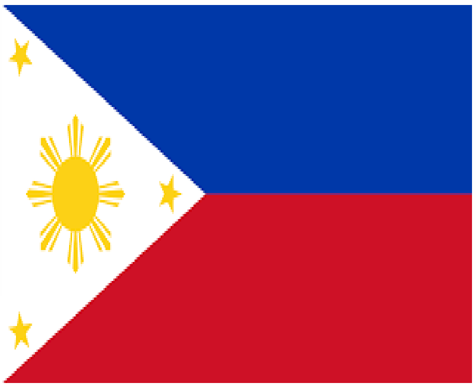
The Guidelines for this Pathway

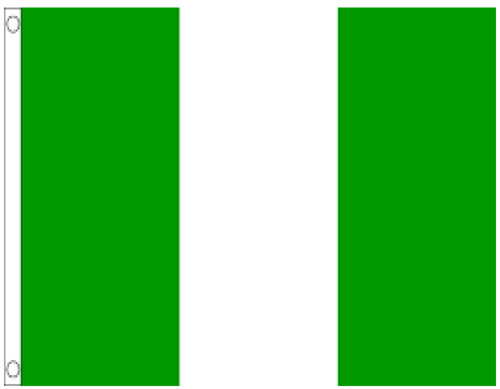
Applying a proportionate approach to licensing to unlock access to insurance

Guidelines IAIS

ICP 4	IAIS Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets, 2012
Application Paper on Regulation and Supervision of MCCOs, 2017	Application Paper on the use of Digital Technology in Inclusive Insurance, 2018

Some examples –licensing for microinsurance





Some examples of newcomers in the InsurTech scene

- Lemonade
- Root
- Hippo
- Trov
- Bestow
- Pie Insurance
- Metromile
- Next Insurance
- Kin
- Clearcover

Pathway:

- TSPs / MGAs
- Close partnerships or even ownership by global insurers
- Sandbox and test and learn approaches to facilitate approval

Key messages

- Applying the proportionality principle in respect of licensing processes implies taking the following steps:
  - ✓ First, check if there is a need! This implies a constant understanding of the formal and informal insurance market, deep dive with consumers and providers, understand the current stage of informality.
  - ✓ Secondly, understand the scheme and providers.
  - ✓ Thirdly, identify and assess the risks – efficiency and stability of the insurance sector + consumer protection.
  - ✓ Fourthly, explore how a proportionate regulatory and supervisory approaches can attenuate the risk and at the same time unlock access to insurance.
  - ✓ Fifthly, validate this approach with potential newcomers to ensure that you are really creating a pathway to formalization. M&E.

Key messages

- Ensure that consumers are effectively protected:
  - ✓ Distinctions between licensed and non licensed insurers might be tricky for consumers - take steps to provide clarity of who is and who is not, and raise awareness about the consequences of informal providers
  - ✓ Monitor constantly "tolerated" insurance-like schemes so they do not pose a systemic risk and mistrust in insurance
  - ✓ Protecting consumers is also about enabling access to insurance – always try to put yourself in their shoes and see how you can enable the framework so they can be more resilient

Additional resources

- Report on best practices on licensing requirements, peer-to-peer insurance and the principle of proportionality in the InsurTech context, 2019
- Etherisc's White paper, 2017
- The potential of the cell captive structure for sub-Saharan Africa, Cenfri, 2019

Exploring the potential of cell captives in sub-Saharan Africa

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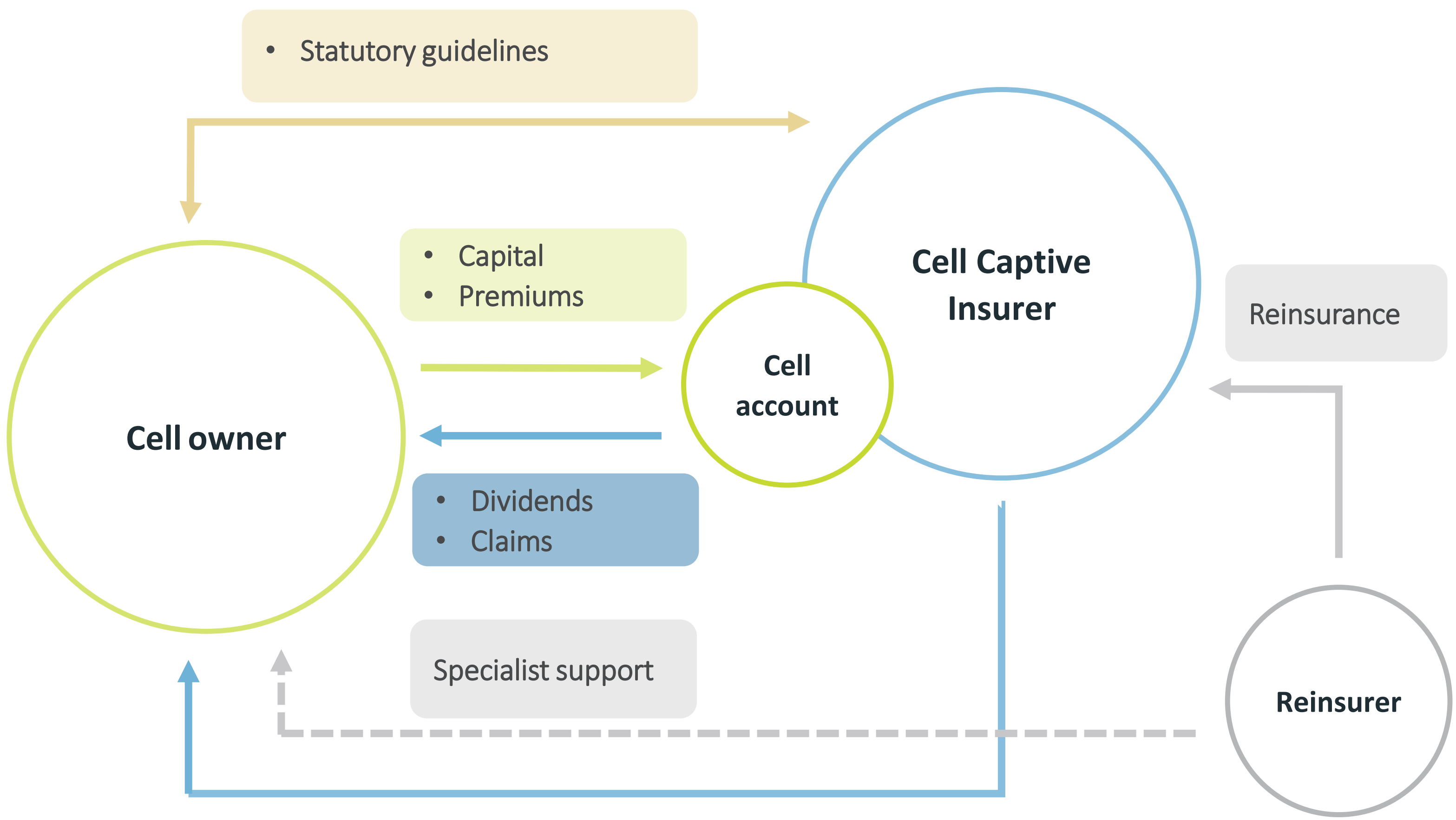
First-party cell captives

Licensed insurer forms ringfenced cells enabling cell owner to self-insure risks/assets

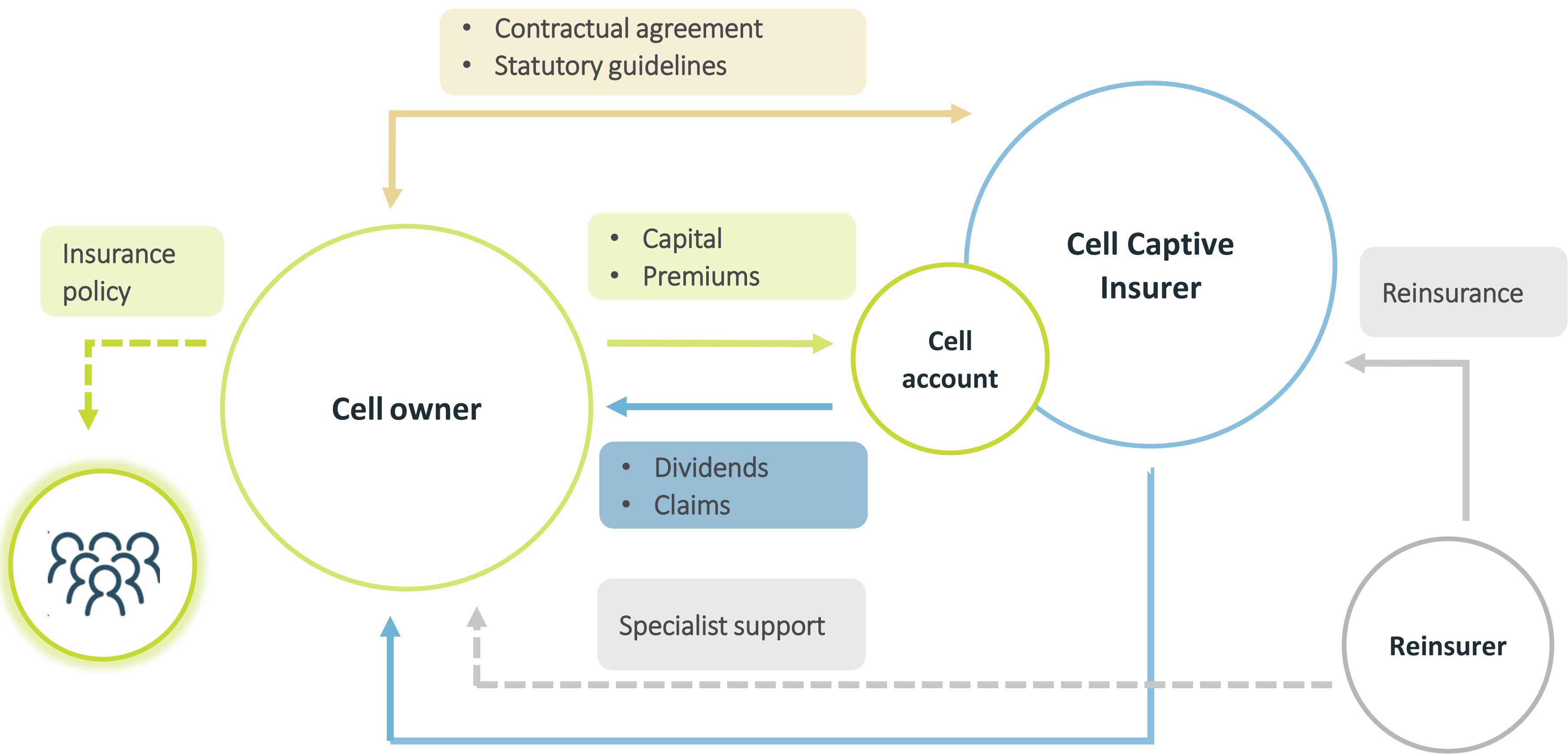


Services provided by cell captive insurer include:

- Governance and compliance
- Actuarial services
- Product design, policy wording and pricing
- Underwriting

Third-party cell captives

Cell owners utilise cell captive insurer licence to issue policies to third-party groups



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Cell captives offer benefits for different actors

	Cell owners	Cell captive insurer	Regulator
First-party	• Lower capital and compliance requirements • Specialized/niche risk cover • Share in economic benefits • Limited liability	• Effective tool to crowd in capital and extend footprint	• Pooling of capital to boost local capacity to cover large risks
Third-party	• Lower capital and compliance requirements • Share in economic benefits • Increased autonomy and control over insurance offering • Graduation pathway for potential new licensees • Market participation	• Build competitive advantage via cell captive space • Reach new markets/segments by leveraging distribution/marketing capabilities of partners (cell owners) • Insight and access to innovative ideas	• Retail innovation • Inclusive insurance • Local capacity building • Market consolidation • Broader market participation without need for additional licenses

Use cases for Third-party cell captives

Alternative licensing and formalisation

Cell captive can provide an alternative option to formally accommodate innovative players

Graduation path

Cell captive can help new players enter insurance market, by gradually upskilling and building up capital until it is feasible for them to acquire an insurance licence of their own.

Retail innovation

The cell owner has the autonomy to tailor the product offering to their vision and/or customer needs (as opposed to a pure distribution relationship). Control over the insurance value chain enables innovation in a nimble structure that sits outside of the corporate culture and legacy systems of "traditional" insurers.

Formalisation

Cell captives address licensing and formalisation challenges

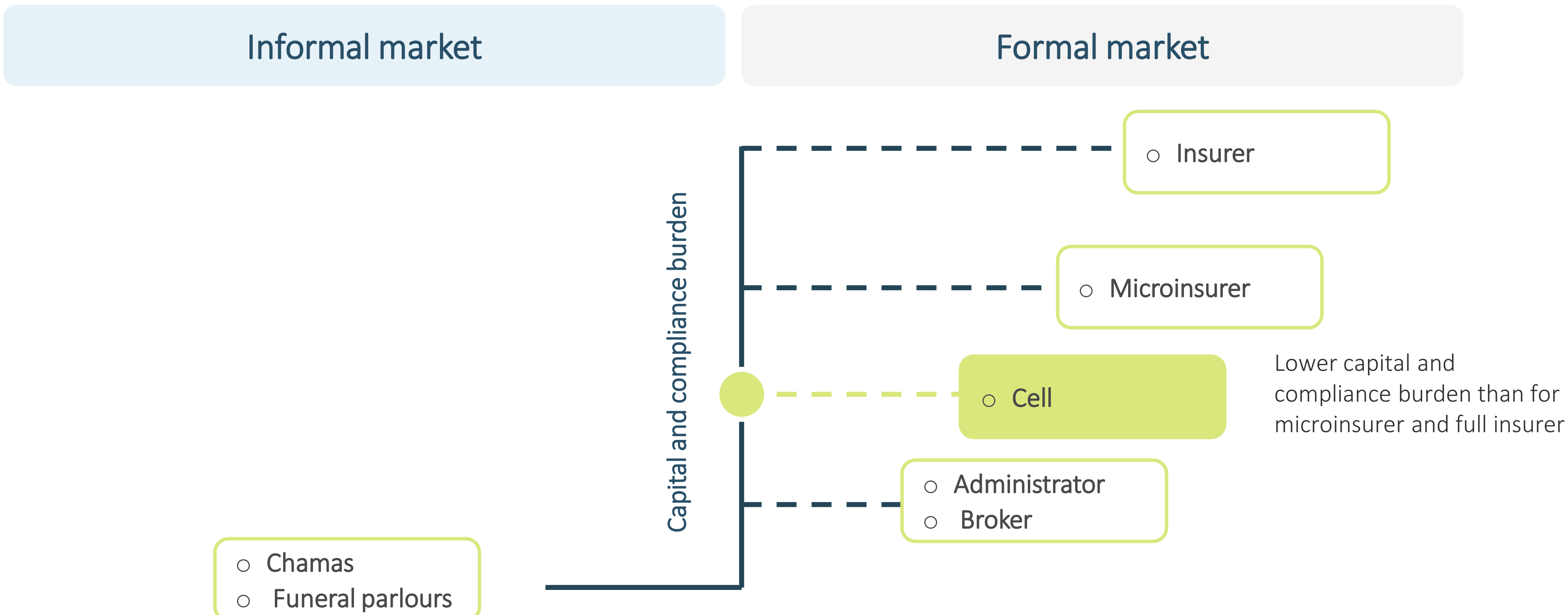
Formalisation. Cell captives create a pathway for innovators who do not fit neatly into traditional insurance license options to be fully accommodated within regulation

- **Limited license options available to regulators**
  - Increasingly innovative insurance market players do not fit into the traditional license categories of insurer, (microinsurer), broker or agent which may lead to overcompliance or operation without a license (informally)
  - Cell captives can accommodate innovative players who want to provide more services than broker/agent, without carrying risk themselves and/or meeting full insurance license compliance
- **Lower entry barriers**
  - High entry barriers can make it unrealistic for smaller players to become insurers in own right
  - Cell captives can significantly lower the capital and regulatory compliance burden on organisations seeking to formalise insurance operations

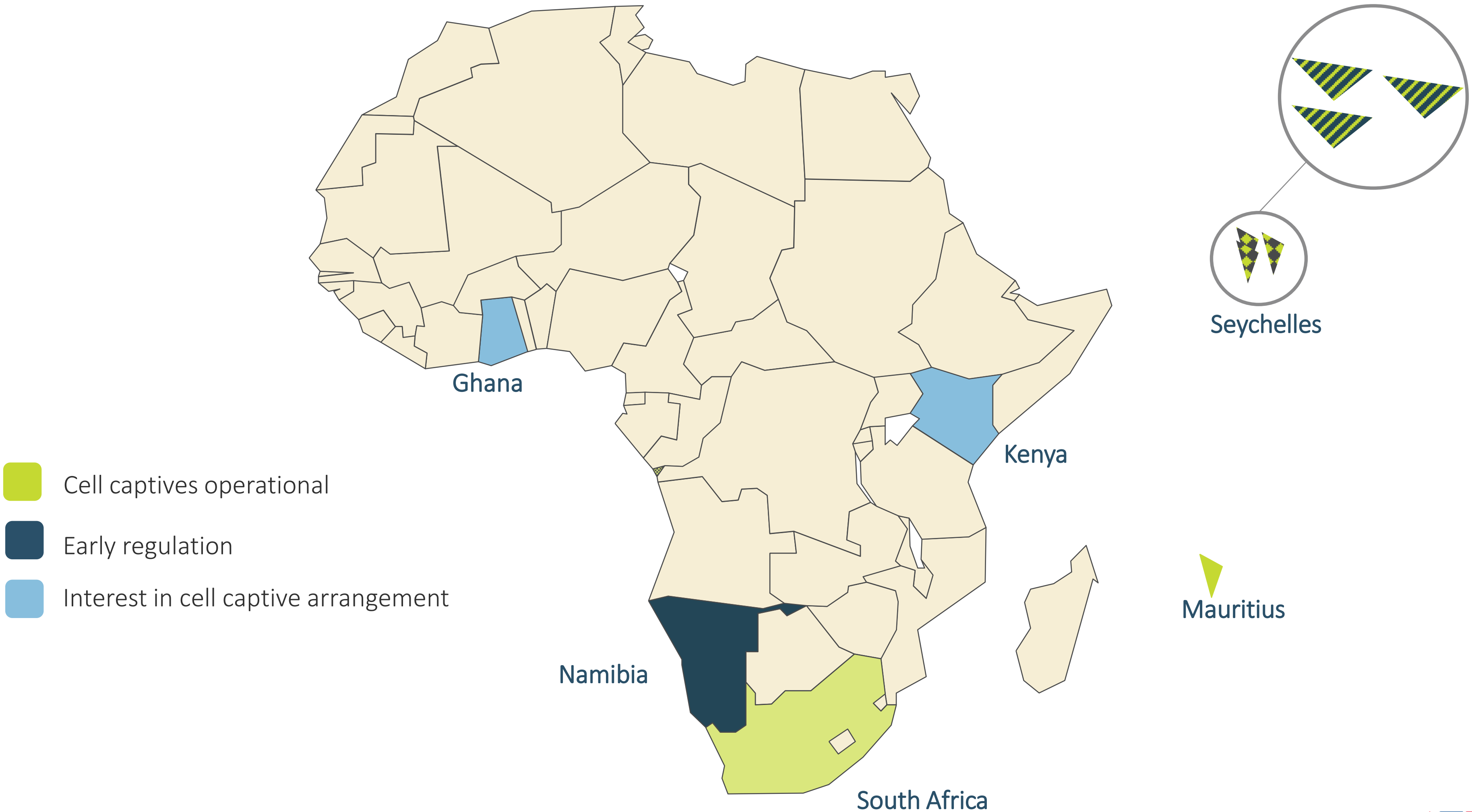
Formalisation

Market participation options

Market participation. The cell captive structure plays an important formalization role by enabling entry into the insurance market for new players. The model broadens the set of options available, enabling players to decide how they would like to operate – either remaining as a cell or graduating to become insurance license holders themselves



Cell captives landscape in Africa



Next steps

1. Direct engagement with interested parties
2. Set out parameters for piloting the model
3. Observe and learn from the cell captive pilot
4. Build internal capacity to regulate cell captives
5. Draw on learnings to develop regulation to ensure market certainty

Contact us

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About Cenfri

Cenfri is a global think-tank and non-profit enterprise that bridges the gap between insights and impact in the financial sector. Cenfri's people are driven by a vision of a world where all people live their financial lives optimally to enhance welfare and grow the economy. Its core focus is on generating insights that can inform policymakers, market players and donors who seek to unlock development outcomes through inclusive financial services and the financial sector more broadly.

About FSD Africa

FSD Africa is a non-profit company that aims to increase prosperity, create jobs and reduce poverty by bringing about a transformation in financial markets in sub-Saharan Africa (SSA) and in the economies they serve. It provides know-how and capital to champions of change whose ideas, influence and actions will make finance more useful to African businesses and households. It is funded by the UK aid from the UK Government. FSD Africa also provides technical and operational support to a family of 10 financial market development agencies or "FSDs" across SSA called the FSD Network.

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