

Index Insurance Training

Key strategies for monitoring index insurance products

Checklist on ways to effectively monitor index insurance products

Product oversight: Require insurers to seek regulatory approval before launching any new index insurance product. Assessment should cover product design, pricing, marketing, distribution, and claims processing. This approval process should include a thorough review of product documentation, pricing models, and risk assessment. Supervisors should also require insurers to notify supervisors of material changes to product and design and pricing after launch.

Review and reporting requirements: Implement data standards and reporting requirements that insurers must adhere to. It is important to combine offsite reporting (requiring insurers to submit regular reports on their index insurance operations) and conduct onsite assessments. Review and reporting should ensure adherence with both prudential and consumer protection requirements, focusing on key risk factors in index insurance such as:

- Ensuring insurers to perform regular actuarial reviews of their index insurance products to validate pricing models and assess the adequacy of reserves.
- The use of high-quality data in index insurance. Regulators can collaborate with relevant agencies to ensure the accuracy of indices used in index insurance products.
- Claims processing to ensure prompt and fair claims settlement. Investigate any patterns of claims denials or delays that may indicate improper practices.
- How insurers sell and distribute index insurance products.

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☑ Definition of index insurance: In order to conduct effective product monitoring it is important to have a clear regulatory definition of index insurance products to ensure that all of such products that are currently in the market are captured and subject to reporting. It also ensures that supervisory data is consistent and comparable. Some supervisors have a definition by way of issuing a dedicated index insurance framework. Some regulators have taken the approach of issuing a legal opinion in favour of including defined index-based products in the governing law on insurance, thus subjecting them to regulation including reporting ([Simoes, 2020](#)).

☑ Establish robust regulatory frameworks: Product monitoring needs to be supported by strong fundamental prudential and consumer protection supervisory frameworks. Prudential requirements should include solvency and Capital Adequacy Requirements that ensure insurers have sufficient capital to cover their liabilities arising from index insurance policies. Stress testing is important to assess the impact of extreme events or systemic risks on index insurance portfolios. This ensures that insurers are adequately prepared for unforeseen challenges.

Consumer protection should be aligned with ICP19 such as focus on including transparency in product disclosure, clear policy wording, and easy-to-understand marketing materials. Set up mechanisms for handling customer complaints and ensure that disputes are resolved fairly.