access to insurance initiative

3rd IAIS - A2ii Consultation Call on "Consumer Protection" Questions and Answers

Following questions have been received from the participants of the 3rd IAIS-A2ii Consultation Call on "Consumer Protection" on **May 22nd** at 10am and 4pm and answered by our experts on the call, Martina Wiedmaier-Pfister and Craig Thorburn.

With the monthly consultation calls the Initiative together with the IAIS is facilitating a dialogue on current regulatory and supervisory topics and trends around access to insurance between supervisory and regulatory authorities and selected experts. With the document at hand we would like to record the answers to the questions related to the topic participants shared prior to the call. Please note the development of this document is not a static process but will require ongoing input as learning occurs.
Therefore, we kindly invite you to complement the questions and responses with your comments and additions in order to maintain an updated list which reflects current trends, experiences and learnings. To do so please send us an email to: consultation.call@a2ii.org.

	Question received from participants	**Answer by experts of the call**
1.	How can consumer protection frameworks and insurance guarantee schemes being used to achieve effective consumer protection?	*"Consumer protection (CP) is achieved through a variety of means such as prudential and solvency regulation, conduct of business supervision, consumer education, and consumer protection frameworks and insurance guarantee schemes." IAIS Newsletter Nov 2013* *The call is on CP in inclusive insurance markets: "Generally, consumer protection needs are higher when access to insurance markets is first extended. Protection mechanisms* ***need to be tailored to a customer segment with low financial literacy, and little or no experience with insurance****." IAIS Application Paper (AP)*
2.	What are the ways to make consumer protection and access to insurance as central to the mandate of regulatory authorities: can you have prudential oversight without consumer protection?	*There is no doubt that CP is central to the mandate of the regulatory authority. A main objective of prudential oversight is CP. Note that – in inclusive insurance markets – oversight might require a somewhat different approach. See IAIS Application Paper 1.8.10: "In some cases, the risk may be reduced and in others, particularly consumer protection,* ***the risk to achieving supervisory objectives may suggest increased intensity of supervision;"***
3.	What should be the role of supervisors and regulators in	*IAIS Application Paper on Supervision on Regulation Supporting Inclusive Insurance Markets (2012) "Generally,*

	the field of microinsurance?	*consumer protection needs are higher when access to insurance markets is first extended. Protection mechanisms* ***need to be tailored to a customer segment with low financial literacy, and little or no experience with insurance****."* *IAIS* *"In some cases, the risk may be reduced and in others, particularly consumer protection,* ***the risk to achieving supervisory objectives may suggest increased intensity of supervision;"*** *In markets that are rapidly growing and building on innovations in terms of unconventional products and new types of partnership models, insurance supervisors should be proactive rather than reactive, being ahead of the industry and taking preventive measures to protect clients that are new to this market and perhaps less aware and knowledgeable in terms of insurance.*
4.	How to protect consumers that do not have financial education?	*Product simplicity is crucial for this type of customer. Also, supervisors can engage in catalyzing financial education efforts together with industry associations and/or other authorities.*
5.	What are effective institutional arrangements for consumer protection in insurance?	*Institutional arrangements for CP – i.e. the policies, systems and processes – both within the supervisory authority, and the insurance company, need to be adapted to this client type and the particularities of the business models. Inclusive insurance markets often rely on non-traditional, or non-financial intermediaries, and on product innovations. Supervisors need to understand these particularities when addressing CP for the low-income segment. They also need to be proactive.*
6.	Protection of rural markets where access to grievance redressing mechanisms are difficult?	*Rural markets are an additional challenge, with consumers far away from courts, and often less educated and informed than the urban population. Alternative dispute resolution mechanisms need to be developed, e.g. involving community-based organizations.*
7.	Efficient means of disclosures in m-insurance?	*Minimum information needs to be provided to any type of client/product/distribution means. Efficient provision of information that distribute insurance through a mobile network, or rely on other technologies such as the internet, should give consideration to the risks involved in this business, such as policy awareness risk, or sales risk. Supervisors need to study ways of providing information to the consumer who buys mobile-phone based insurance, to ensure that information is provided in a consistent and effective way. The fact that m-insurance is often not sold face-to-face, or sold by sales persons with no insurance background, makes sales through this channel more vulnerable to abuse or misconceptions.*
8.	Should we obviate the diligences of customer due to this type of product?	*As microinsurance (MI) is often classified as low-risk, customer diligence in MI can be, or even need to be, simplified. The higher costs may need to be factored into the price, for example as it is simply too difficult and costly to check the health status of the policyholders of a small life insurance policy sold to a group of villagers.*

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<tr><td>9.</td><td>Bancassurance-banks selling insurance products: Unified regulator possible? If it is not possible, then how do we protect consumer interest in such a situation?</td><td>If it is a situation where several regulatory are in charge, it is important to collaborate with the Bank regulator. The parties can consider issuing a joint regulation, sharing information and also, supporting the supervisory process in both entities.</td></tr>
<tr><td>10.</td><td>Is this type of product (microinsurance) self-sustaining or does it need state subsidy?</td><td>Generally, microinsurance products should be self-sustaining as any other insurance business. However, certain segments of the population who might be too poor to afford insurance should rather be covered by state social protection schemes. Or certain products may be important but not demanded. In such cases, subsides may make sense if policymakers pursue a development goal, such as food security, but there is no demand for such insurance products, like has been the case of crop insurance</td></tr>
<tr><td>11.</td><td>Is it advisable to encourage new companies to offer microinsurance?</td><td>In principle, yes. However, new companies are challenged at many fronts, and should be carefully explore the challenges. When entering this business, insurers and intermediaries should strive to deeply understand the challenges, pitfalls and opportunities of the business models that work, and preferences and behaviours of this type of clients. Close monitoring by the supervisor is advisable.</td></tr>
<tr><td>12.</td><td>Regulation of advertising and promotional material</td><td rowspan="5">These topics could be dealt with in depth in the framework of the IAIS FISc and its process of developing an IAIS Issues Paper Market Conduct, Distribution and Consumer Protection.</td></tr>
<tr><td>13.</td><td>Importance and regulation of privacy & data protection?</td></tr>
<tr><td>14.</td><td>Guarantee schemes & protection from insolvency</td></tr>
<tr><td>15.</td><td>Alternate means of consumer education and awareness</td></tr>
<tr><td>16.</td><td>Mis-selling means irresponsible selling & includes

• misrepresenting facts to garner business
• distort facts to paint a rosy picture of the product
• unethical practice like concealing some vital information
• selling a whole life policy to an ineligible person (a man with huge savings/investments with no spouse & no dependent children)
• sale of an insurance policy to one who is not financially sound</td></tr>
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	• sale of a pension plan/mutual fund equity to a retired senior citizen So, how do we deal with such mis-selling in the face of lack of consumer awareness? • Consumer complaints on the rise? So, how do we empower consumer organizations to mediate? • Microinsurance business-lack of filip? So, how do consumer organizations get involved in a big way in micro-insurance field?	