

Role of the Insurance Supervisors – Part I Regulation and Supervision Supporting Inclusive Insurance Markets

Inclusive Insurance Regional Training Program for
Insurance Supervisors
Dar es Salaam
September 4-8, 2017



C. Role of the insurance supervisor – Part I

- Supervisory objectives
- Importance of having a supervised market
- Providing scope for innovation
- Proportionality
- Definition of microinsurance in regulation



- Traditional objectives
 - Fair
 - Safe
 - Stable
- Inclusiveness objective
- Achieving an appropriate balance
- Variety of authorities
 - Objectives
 - Responsibilities
 - Are there gaps, overlaps, or potential conflicts?



- All customers deserve protection from undue loss
- Failures can affect market confidence and economic growth, even if no systemic risk
- Small policies and small insurers do not mean small risk of failure
- A loss that might be small to some could be catastrophic to others
- Underserved might be less capable of avoiding or dealing with problems



- Potential areas of innovation
 - Entities underwriting insurance
 - Insurance products
 - Channels for delivery
 - Product explanation and documentation
 - Administration
- Does legislation provide scope for innovation?
- If not, are there alternative ways to meet supervisory objectives?



- Many innovations occur through mixed entities
 - Large: (for example) telecom companies, commercial entities, other financial institutions
 - Small: (for example) health care providers, funeral parlors



Discussion - Innovation

Consider the following questions in the context of your respective jurisdictions;

1. Describe a market innovation that has taken place (or, if not, one that might be needed) to enhance access to insurance.
2. How did (or would) your authority respond to the innovation?
3. What steps were (or could be) taken to help ensure that the response was proportionate?



Discussion - Innovation

- Discuss within your table group the issues assigned
- Develop a response
- Select someone to present the results
- Timing
 - 10 minutes for discussion
 - 3 minutes for each presentation



- Respond to the nature, scale, and complexity of risks
- Particularly important with small policies, small insurers, and the need for innovation
- A measure should not go beyond what is necessary to attain supervisory objectives
- Similar risks should receive equivalent treatment



- Why is it needed?
 - To facilitate innovation
 - To allow formalization of the informal
 - To avoid regulation and supervision being a barrier to inclusive markets



- When is it needed?
 - Designing requirements
 - Implementing requirements
 - Assessing adherence to requirements
 - Exercising supervisory powers
- Who can be affected?
 - Customers
 - Insurers
 - Supervisors



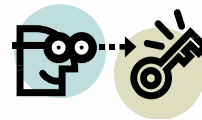
- Objective – benefits should exceed costs
- Issues to consider
 - Nature, scale, and complexity of the business
 - Practicality of the requirements
 - Constraints and incentives
 - Risks to supervisory objectives
 - Supervisability of the system
 - Creating a level playing field



- **Registration: for pilots or transitional arrangements**
 - Identify the organization, its form, and require minimum reporting to the supervisor
- **Minimum reporting**
 - Balance sheet and income statement that identifies the insurance business separately, shows the effect of reinsurance, identifies claim and operating expenses separately, and is at least annual or on request
 - Note that these are higher standards than a literal reading of ICP 9
- **Market disclosure**
 - Everyone should be able to determine their market share and benchmark their performance, against the market as a whole



- **Conduct of business**
 - Customers should:
 - Be aware that they have an insurance product
 - Know the identity of the insurer
 - Know the manner that the services under the product should be accessed
 - Know when the insurance service ceases
 - Know their costs and obligations under the product



- Qualitative definitions
 - Insurance that is accessed by low-income populations, provided by a variety of different entities, but run in accordance with generally accepted insurance practices (which include the ICPs)
 - Appropriate for many purposes
- Quantitative definitions
 - Might be needed to allow different treatment
 - Keep the purpose in mind
 - Faulty definitions can have unintended consequences



- Definitions should focus on products, not customers
- Definitions that focus on the providers have the potential to create an un-level playing field
- Definitions that focus on microinsurers should clearly delineate microinsurance business from others and will require a definition of a risk category or product
- Quantitative elements of definitions should be set at the highest possible level to ensure the defined product is as inclusive as possible
- Quantitative elements should consider the need to align the resulting business profiles with the expected proportionate regulation and supervision
- Would the definition inadvertently exclude target customers, providers, products, or innovations?
- Consider a definition that involves supervisory discretion



Group Activity - Definition (1)

The authorities in a jurisdiction are considering adopting the following definition:

- “Microinsurance product means an insurance product that is designed to meet the needs of low-income customers, where the amount of premiums, computed on a daily basis, does not exceed 6 percent of the national daily minimum wage rate and the maximum guaranteed benefits do not exceed 600 times the national daily minimum wage rate. In the case of a bundled product, the maximum amounts of premiums and guaranteed benefits apply separately with respect to each component of the product.”



Group Activity – Definition (2)

1. What are three reasons that this definition might not be supportive of an inclusive insurance market?
2. What changes would you propose to the definition if its ultimate purpose is to facilitate the licensing of microinsurance-only agents?
3. What changes would you propose to the definition if its ultimate purpose is to limit the exclusions allowed in microinsurance products?



Group Activity

- Discuss within your table group the issues assigned
- Develop a response
- Select someone to present the results

- **Timing**
 - 15 minutes for discussion
 - 4 minutes for each presentation

