Business models, distribution and their regulatory implications

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New business models: Innovation in business models is key to enhancing inclusive insurance through low-cost and efficient service delivery. A variety of different business models are being tested and used by the industry. Several business models were identified by a cross-country study in 25 jurisdictions[1], classified by the different types of distribution infrastructure leveraged to achieve scale and make low-premium distribution viable.

The business models often involve multiple parties such as microinsurance brokers or third-party administrators as well as new types of intermediaries in the microinsurance value chain such as retailers, utility companies, and mobile network operators. When such non-traditional insurance distribution channels - which own the client relationship - become the interface for the client, the insurers are less visible.

Consumer protection risks: Evolving business models give rise to particular consumer protection concerns. A potential source of risk is the involvement of intermediaries or parties that traditionally have not been under the jurisdiction of the insurance supervisor. Where the representatives of these parties sell insurance, they might not have the skill set or experience of traditional insurance sales points. The motivations of the distribution channel and their sales personnel may be different to those of the insurer. Lastly, the nature of the target market also raises certain consumer protection concerns:

- Clients don't have extensive insurance knowledge or experience with complex financial products like insurance, which increases the risk of misselling.
- Clients might not be aware of their cover or how to claim, especially in the case of auto-enrolment.

"When scale and technology replace client relationships, a post-sales risk arises that needs to be managed."
Forum conclusion

"Efficient distribution alone cannot sustain a market; effective post sales services need to be in place."
Arup Chatterjee
Asian Development Bank, the Philippines

"In difficult geographical settings, such as in Indonesia with its 15,000 islands, traditional channels do not allow reaching scale and accomplishing broad-based outreach. Cooperatives, merchandise shops, post-offices or pawn-shops are being considered."
Firdaus Djaelani,
Commissioner
OJK, Indonesia

[1] The full Synthesis Paper of A2ii is available at: http://www.a2ii.org/document-details.html?dam_single=3100

With the support of

- Clients might have fewer resources to access consumer recourse mechanisms, which makes these mechanisms less effective.

KEY TAKE-AWAYS

FOR INSURERS

Distribution partners are increasingly dominating the business, driving performance and representing brand value to the consumer.

Non-financial distribution channels such as retail chains and shops, trade unions, mobile network providers, post offices, non-banking agents and funeral service providers need to focus on effective post-sales services to sustainably advance inclusive insurance.

Trust can only develop from positive experiences. Often, the distribution channel is the trusted interface for a low-income consumer. Paying claims quickly is an important component of establishing trust.

When partnering with a third-party distributor, it is important to manage expectations from both sides and clearly define roles and responsibilities in order to avoid misaligned interests.

A clear exit strategy is imperative in partnership agreements so that, in the event that parties do decide to end the partnership or product, clients are well-informed and trust is maintained at all times.

FOR REGULATORS AND SUPERVISORS

Supervisors should build their capacities to understand the various business models and find the right balance in allowing a broader set of intermediaries while ensuring consumer protection and product value.

Insurance supervisors should coordinate with other supervisory entities, laying down a framework for joint regulation and supervision of issues lying at the intersection of different jurisdictions such as telecommunication and payment systems.

A more proactive approach of supervisors is crucial to keeping them abreast with consumer protection risks associated with emerging intermediation models and their processes.

The value of an insurance policy can be indicated by commission levels and speed of claims payment. Supervisors need to monitor these indicators.