

**Access to Insurance
Policy Seminar for Regulators and Supervisors
Senegal 3 November 2009**

Policy and regulatory approaches to microinsurance globally

Martina Wiedmaier-Pfister for German Development Cooperation (GTZ) and
Federal Ministry for Economic Cooperation and Development (BMZ)



1 – Growing Microinsurance Markets

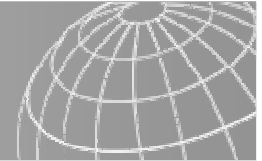
- Insurers recognize business potential
- Microfinance Institutions push microinsurance
- New technologies and more banking outlets
- Government and development agencies supportive

Landscaping Study in Africa 2009

“Microinsurance has tripled in the past 3 years”

With growing markets, policymakers, regulators and supervisors need to make sure that low-income consumers get value for money products.





2 – A successful business model...

...is different from traditional insurance as it

- 1) offers affordable cover for limited risk
- 2) focuses on low-cost provision
- 3) sells through convenient and well-trusted delivery channels
- 4) links with financial services and other services and purchases
- 5) builds on a large risk pool to be commercially viable
- 6) creates real value for clients
- 7) provides rapid claims settlement

Policy, regulation and supervision build the foundation on which microinsurance can grow massively and in a sound way.

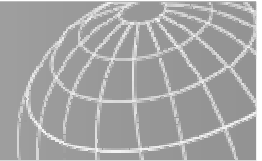


3 – Policy Matters!

**An enabling environment facilitates market development by promoting stability and innovation and strengthening consumer protection ...
...while focusing on the low-income segment.**

Microinsurance challenges the policy environment:

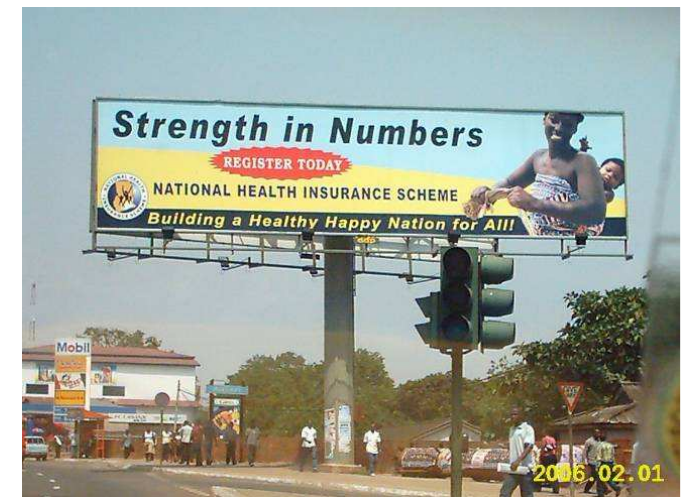
- 1) Developmental mandate of the insurance supervisor
- 2) Coherence among different policy areas
- 3) Mandate crossings between government agencies
- 4) Fiscal burden on premiums and intermediation
- 5) Subsidized programmes versus market based solutions
- 6) **Proactive policymakers**
- 7) **Consumer protection and financial literacy**
- 8) **Regulatory framework – non-insurance and insurance**

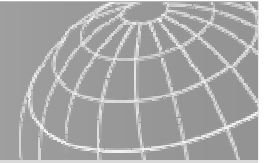


4 – Proactive Policymakers

Supervisors play a key role in motivating policymakers and other financial sector authorities to increase their awareness and know-how on

- the relevance of microinsurance
- good practices
- barriers and
- drivers in their country





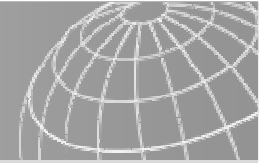
5 – Consumer Protection and Financial Literacy

Consumer protection is a policy task but also cross-cutting issue with many actors involved. It is highly relevant for sustainable microinsurance market development.



- Complex nature of the product
- Low awareness, knowledge and trust among consumers
- Claims process requires understanding and resources
- Lack of transparency and non-accessible arbitration mechanisms

Financial literacy is the second major impediment of access to finance after the level of income. Synthesis Document, Brazil Case, GTZ 2007

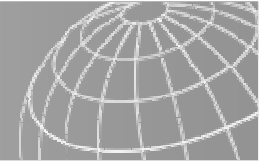


6 – Regulatory Framework: Non Insurance

**Regulations in other sectors
can be a barrier to microinsurance
development in the areas of**

- 1) Banking and microfinance**
- 2) Cooperatives**
- 3) Payment systems**
- 4) Foreign investment**
- 5) Know-your client**



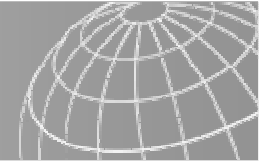


7 – Regulatory Framework: Insurance

**Insurance laws and regulations
can also hinder
microinsurance development.**

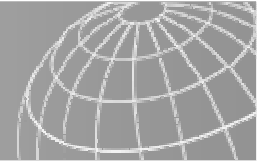
- 1) Consumer protection as a traditional regulatory task
- 2) Entry requirements for providers and intermediaries
- 3) Definition of insurance leaves some insurance products outside of the regulatory sphere
- 4) Demarcation between life and general insurance
- 5) Delivery channels**
- 6) Products and contracts**





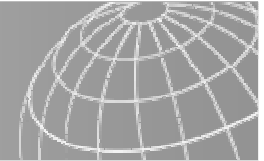
8 – Regulatory Issues 1: Delivery Channels

Microinsurance features	Regulatory issues
<p>Traditional distribution systems are not designed to serve low income markets.</p> <p>Innovative delivery channels reduce transaction costs.</p> <p>e.g. Non-financial intermediaries, such as retail shops in South Africa; or electricity companies in Colombia where microinsurance is attached to the electricity bill</p>	<p>Licensing of non-traditional agents, their oversight and training</p> <p>Can an agent work for more than one insurer?</p> <p>Financial management of non-traditional channel</p>



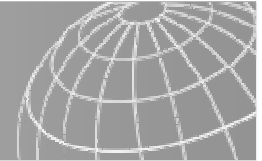
8 – Regulatory Issue 2: Products and contracts

Microinsurance features	Regulatory issues
<p>Limited cover</p> <p>Simplicity of contract</p> <p>Consumers prefer bundled products, which reduce cost</p>	<p>Low volumes, high numbers</p> <p>Allow group insurance to reduce cost</p> <p>New contract regulations</p> <p>Allow for combined life and non-life product</p>



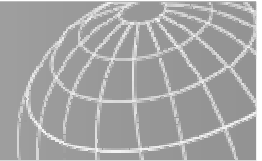
8 – Key Regulatory Issue 3: Control Efficiencies

Microinsurance features	Regulatory issues
<p>If there are any screening requirements, they are very limited to keep costs low</p> <p>Confirmation of death by local leaders</p>	<p>Traditional controls are not effective</p> <p>Different screening requirements</p> <p>Verification of a liability case more flexible</p>



8 – Regulatory Issue 4: Premiums

Microinsurance features	Regulatory issues
<p data-bbox="322 651 842 699">Different risk structure</p> <p data-bbox="322 842 808 959">Frequent or irregular premium payments</p>	<p data-bbox="987 651 1753 767">Availability of data (mortality and morbidity tables)</p> <p data-bbox="987 810 1323 863">Grace periods</p> <p data-bbox="987 906 1581 1023">Unconventional premium collection points</p>



8 – Regulatory Issue 5: Claims

Microinsurance features	Regulatory issues
<p data-bbox="322 632 931 746">Claims prove the value of the product</p> <p data-bbox="322 887 943 1002">Claims process is simple - yet still controls fraud</p>	<p data-bbox="987 632 1563 683">Rapid claims processing</p> <p data-bbox="987 823 1637 938">Alternative assessment and settlement</p>

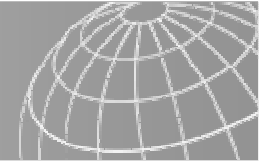


9 – Supervisors as key drivers

Supervisors can choose among various strategic approaches to promote microinsurance:

- 1) Motivating insurance take-up by supporting financial literacy work
- 2) Integrating microinsurance into financial sector policies
- 3) **Adjusting the REGULATORY FRAMEWORK**





10 – Adjusting the regulatory framework

Supervisors can pursue different regulatory options:

Option 1: Regulating MI as a „Line of business“

Motivating licensed insurers to adapt their systems, products and sales strategies and facilitating delivery

→ Criteria: Licensed insurers willing to go down-market

Option 2: Creating a new type of provider

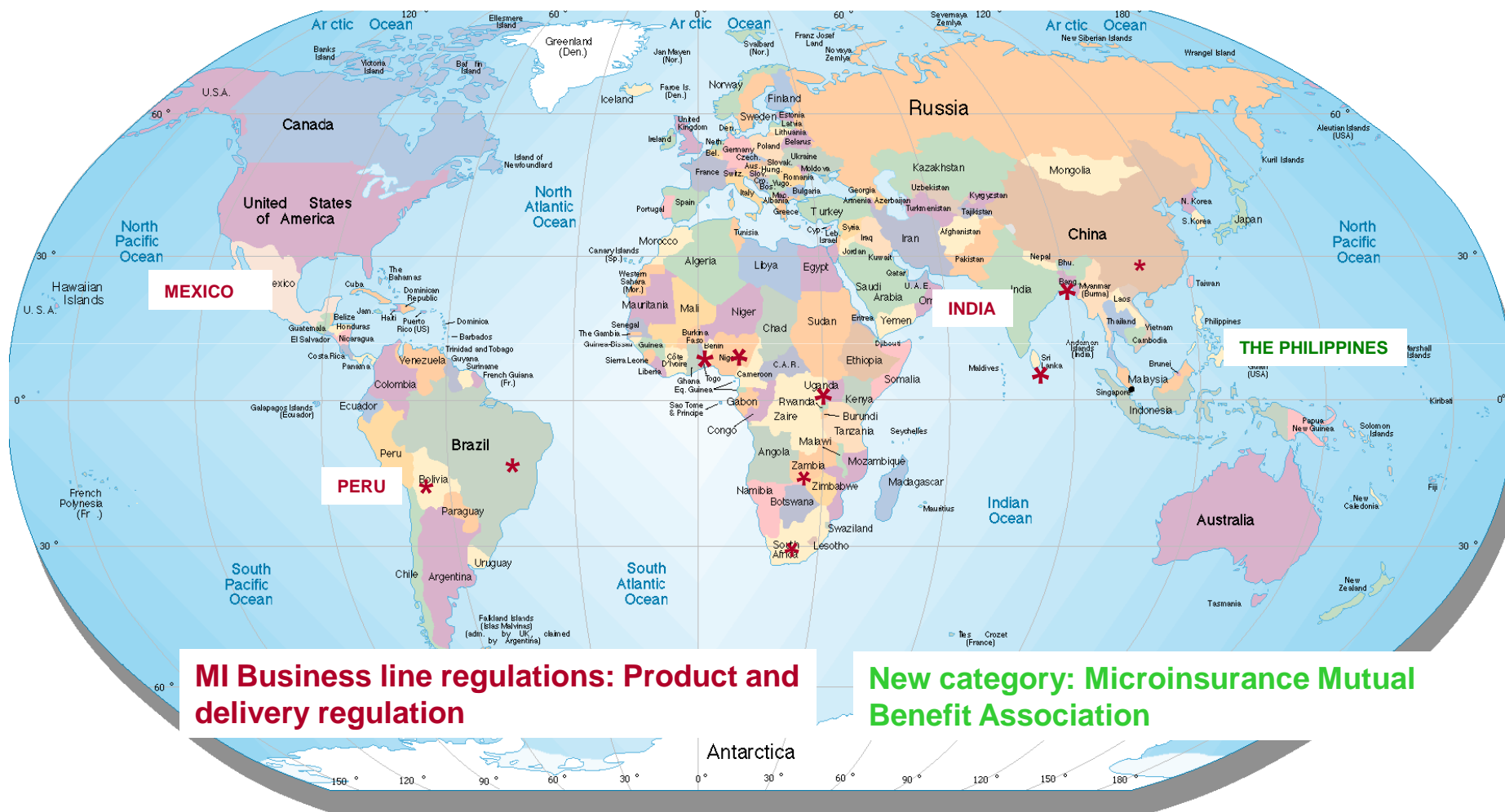
Motivating informal insurers to formalize and facilitating the establishment of new microinsurers

→ Criteria: Number and quality of candidates

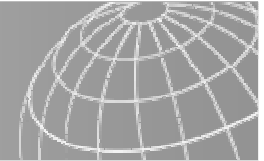
→ Capacity and willingness of the supervisor



12 – Regulatory approaches in a global view



* Regulatory intervention under way

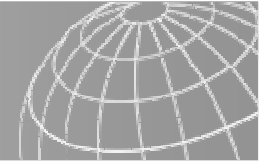


13 – Indian MI Product and Delivery Regulation

- First microinsurance regulation (2005)
- Risks insured in life and non-life lines
- Sum insured between \$ 123 - Max \$740 depending on line
- Licensing of agent liability of insurer
- „Microinsurance Agent“ can sell a combined product (life+non-life)
- Agent training „light“

1° Product and delivery rule:

„Microinsurance Agent“ as important innovation

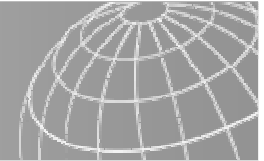


14 – Peruvian MI Regulation: Product and Contract

- Sum covered up to 3.300 US\$
- Simple application and policy form
- Some minimal and general exclusions only
- Claims reported by claimant with simple proof that incident incurred
- Claims must be paid within 10 days of receipt of claim

2009: The revision of SBS Resolution is under way to abolish some further barriers such as the indefinite duration, or no previous checks and improve the quantitative definition.

Proposed innovations: To allow for flexible ways of subscribing the contract (written, electronic, telephone)



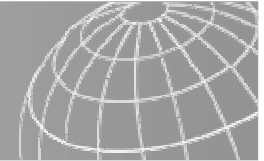
14 – Peru MI Regulation: Delivery

Innovative delivery channels:

Sales contracts with MFIs, Money Transfer Enterprises, Savings and Credit Cooperatives, Social Clubs and Trade Unions.

Making use of financial and social aggregators:

- MFI with 800,000 clients
- Cooperatives with 600,000 clients
- Annual volume of 2.2 million money transfers to/from other countries

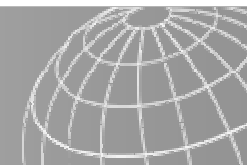


15 – Philippines

2006: Creation of **Microinsurance Mutual Benefit Associations**

- Under the insurance law
- Limited range and size of products (up to 4,300 US\$ sum insured)
- Lower capital requirements
- Mainly driven by the Microfinance Industry and CARD MBA as role model and the support agency RIMANSI

2009: The Ministry of Finance/National Credit Council, Insurance Commission and other stakeholders have been working on the **“Regulatory Framework for Microinsurance”** covering all types of present and potential microinsurance providers such as pre-need companies, health maintenance organizations, mutual and Cooperative insurers, and commercial insurers.

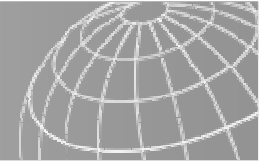


16 – Supervisors as key drivers

The steps for a well-structured reform path need to be tailored to the country context and sequenced well.

- **Stakeholder dialogue** with the industry
- **Coalition building** with other sector authorities such as Central Bank or Ministry of Finance
- **Country diagnostic** to identify market potential and barriers in regulation, supervision and policies
- **Consumer protection** and financial literacy development
- **Mix of instruments**, e.g. regulatory reform and literacy support





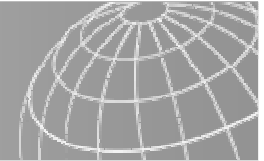
A proactive and dialogue oriented insurance supervisor ...



**... facilitates the development of massively provided
value-for-money insurance policies for African markets!**

Thank you very much for your attention!

www.gtz.de



NOTES:

- **Most MI today is compulsory**
- **Group insurance allows for maximum market penetration**
- **Main risks low-income households want to insure:
life/funeral, health, disability and accident**
- **Clients prefer bundled products (e.g. life and house
insurance in one policy)**
- **Flexible payment terms**
- **Generally short-term policies**
- **Piggy-backing on other services**
- **Need to be affordable to win against other spending priorities**
- **True client value required to push the frontier for voluntary
products**