

1. Key steps for formalization (Michael Hafeman)
2. The magnitude of informality (Martina Wiedmaier-Pfister)
3. Country examples
 - a) Philippines
 - b) Colombia
 - c) CIMA/Inter-African Conference of Insurance Supervisors



1. Key steps for formalization

a. Obtain a clear picture of existing informal activities

- Entities underwriting insurance risks
 - MFIs, MCCOs, funeral parlors, pilots, etc.
 - Form, ownership, management, scope of activities
- Others involved in the delivery chain
 - Intermediaries, retailers, telecoms, etc.
 - Registration requirement might aid in identification



1. Key steps for formalization

b. Identify possible and preferred outcomes

- Licensing or transfer of risks to licensed entities
 - Regular or special licenses
 - With or without changes in business models
- Consider implementation issues
 - Numbers, industry structure, supervisory resources, support for enforcement
- Consider how customers will be protected



1. Key steps for formalization

c. Take steps to achieve acceptable outcomes

- Consider specific actions needed to get from current states to various outcomes
- Develop clear processes and realistic timeframes
 - Others might be able to assist, such as apex organizations, industry organizations, etc.
- Identify contingency plans
- Enforce the transition plans



2. The magnitude of informality

Informality bears important threats **such as consumer protection risks and regulatory arbitrage.**

Common **faces of informality** in inclusive insurance markets:

- Service providers (MFIs, cooperatives, retailers) who run an in-house insurance scheme for clients or members
- Funeral homes who carry risk but don't have a license
- Master policyholders who avoid an agent license
- Government schemes without an insurance license in agricultural or disaster insurance
- Pilot projects that are unlicensed in health, livestock, or any other risk area



1 – Informality in Philippines (back in 2006):

- Cooperatives self-insuring their members
- MFIs insuring their credit clients

2 – Strategic approach of the Insurance Commission, Central Bank, Cooperative Development Authority and Department of Finance - National Credit Council:

- 2006: IC Circular creating Microinsurance Mutual Benefit Associations
- 2010: National Microinsurance Strategy + Regulatory Framework + Joint Memorandum Circular
- 2010: Central Bank Circular BSP 683 on Rural Banks as insurance agents



3 – Options for transformation: Informal providers could

- partner with a licensed underwriter as agent
- form an insurance entity such as Microinsurance Mutual Benefit Association (other types of insurance entities like commercial company and coop insurance society are other options)
- Have its members join an existing authorized cooperative insurance society or an MI-MBA

4 – Key features of formalization:

- New type of provider (MI-MBA) – and MI agent license
- Transitional process
- Joint effort of various authorities
- Capacity of supervisor

5 – Outcomes:

- 2013: 40 Rural Banks licensed as agents (25 active)
- 2013: 20 MI Mutual Benefit Organizations serving more than 7.5 million insured



Before 2003: Funeral services were not excluded as an Insurance Activity. Insurance Entities were allowed to provide funeral services to consumers.

2003: Funeral services are excluded as an Insurance Activity but its supply was not expressly forbidden to insurance companies .

2009: Insurance entities are forbidden to provide any contribution in kind regarding funeral services. Non profit entities, corporations and other associative forms are established as the only organisms allowed to provide funeral services to consumers.

2010: The Constitutional Court closed the debate declaring the legality of such reform.

Currently, the legal panorama of funeral insurance and services is the following:

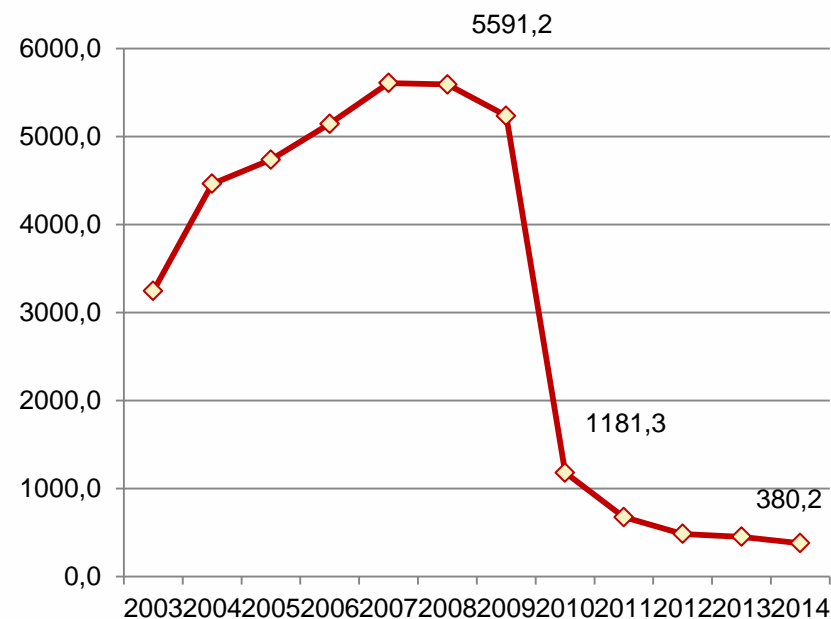
Formal Insurance Entities	Non-Financial Authorized Entities
Funeral Insurance	Funeral Prevision Plans
<p>May:</p> <ul style="list-style-type: none"> - Underwrite funeral policies, giving <u>only</u> money to policyholders or beneficiaries upon claim. <p>May not:</p> <ul style="list-style-type: none"> - Compensate in kind instead of money. - Provide directly funeral services. - Pay the compensation before policyholder or beneficiary previously assume funeral costs. 	<p>May:</p> <ul style="list-style-type: none"> - Provide directly funeral services. - Compensate in kind instead of money. - Design products with wide freedom to define contract provisions, given that these entities are not constrained by insurance regulation.

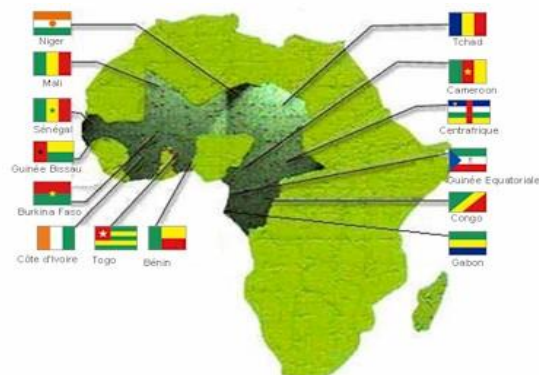


Consumer Risks:

- Lack of adequate future prevision (catastrophic events with high rates of occurrence)
- High exposition to financial risks of funeral services' consumers, given that authorized entities:
 1. Are not supervised by SFC.
 2. Have no prudential regulatory requirements (technical provisions, equity, capital)
- Higher exposition to contract abuse.

**Formal Funeral Insurance
Gross written premium
(COP Millions)**





- 14 Countries
- Population ~ 146 millions inhabitants
- 60% of the population/economy = informal sector
- Economy is driven by Agriculture (~ 30% GDP)

THE INSURANCE INDUSTRY

- 161 licensed insurers
- Premiums = 2 billion dollars ~ 1% GDP
- Less than 10% of the population covered by an insurance contract
- There is a lot of “informal” insurance activity (mostly in the solidarity-based associations and MFIs)
- “Informal” is assumed to represented 60% of the activity



“Formalization” - The process:

- **Principle: “informal is illegal”**
(Regulations require entities to be licensed before starting insurance operations – art. 326).
- **CIMA Approach to “formalization”:**
 - New regulation enacted
 - Training and Sensitization
 - Deadline (1-3 years) to comply
 - Enforcement



“Formalization” - Challenges and Perspectives:

- Many of the players of the informal sector need to be registered (people should be identified before supervised)
- The informal sector needs to be well organized
- The microinsurance regulation (adopted in July 2012) seeks to include those “informal” insurers
- Microinsurance regulation needs to be finalized before a deadline is given to informal actors to comply.



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