

Comments from the International Network of Insurance Associations
Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets

Introduction

The undersigned insurance associations, as members of the International Network of Insurance Associations (INIA) and representing a significant portion of the global insurance industry, welcome the opportunity to provide views and comments on the Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets.

The IAIS' Application Paper provides guidance supporting inclusive insurance markets. It provides examples of how relevant principles and standards can be practically applied. Where enhancing inclusive insurance markets is a policy objective, the document elaborates guidance for supervisors. It is directed at the objectives of implementing the ICPs in a manner that protects policyholders, contributes to local and global financial stability, and enhances inclusive insurance markets.

General comments

1. We note that the Paper calls for inclusive insurance markets to be dealt with in a unique manner as these types of markets have many distinct challenges.
2. We welcome the recommendation to use the “proportionality principle” according to the nature, scale and complexity of the risks posed by individual insurers. In addition, it is agreed that it is important to consider the domestic context, industry, structure and developmental stage of the financial system in question, as well as the overall macroeconomic conditions when considering supervisory requirements and actions.
3. It is extremely important that a balance is sought between creating an enabling environment for inclusive access to appropriate insurance products and protecting policyholders. A supervisory regime that is too onerous, complex and costly with regard to compliance so that it prevents affordable and appropriate products from reaching the low income market, will clearly inhibit the growth of inclusive insurance. At the same time, in assisting with an enabling environment, it is also important to consider consumer protection while not creating barriers to entry both to affordable products by consumers as well as by intermediaries to distribute the products to consumers.
4. It is also critically important that insurance markets be fully open and a level regulatory/supervisory playing field be established for foreign and domestic formal insurers so as to encourage their maximum involvement in inclusive insurance. All providers should be subject to supervision, but recognizing proportionality and that there may be a wide variety of channels used to deliver inclusive insurance. In addition, confidentiality must be assured and supervisory burdens, such as data reporting, should be tailored to local

market realities. Finally, pilot programs entail unique challenges that must be carefully considered.

5. Risk-based pricing should also be permitted, where feasible. This will help send important signals about risk and the importance of reducing it and at the same time will help with availability because insurers will know they can recover their costs and remain adequately capitalized.

Important General Comment: Consumer financial education

1. We note, however, that no mention is made of the role of consumer financial education in financial inclusion. Not only does consumer financial education have an important role to play in creating awareness about the value of insurance products in mitigating risks in a low income environment as many people in these environments often believe that insurance products are only affordable and applicable to more affluent people, but it also assists with consumer protection as informed consumers are in a position to make the right choices when considering and acquiring insurance products to meet their needs.

It is strongly suggested that this Application Paper include the role of consumer financial education in financial inclusion markets. At the same time, the Paper should emphasize the importance of avoiding the imposition of unrealistic or overly burdensome demands on insurers and intermediaries.

2. The role of disclosures to assist with consumer protection in financial inclusive markets should be considered as well. It is noted that this is also not dealt with sufficiently in this Paper. However, the Paper should note the importance of avoiding the imposition of prohibitive costs and burdens on insurers and intermediaries.
3. In addition, the role of standardised (although differing between regions, jurisdictions and countries respectively) disclosures and/or basic consumer financial education information for inclusive markets should not be discounted and should indeed be considered in this Application Paper. This will ensure a uniform approach, which is simple to understand by both consumers and providers of these products, and which is easily enforceable. This also ensures a basic level of consumer protection which is not as costly as the compliance with onerous consumer protection legislation.

Key points

1. We agree with the principle that all entities that act as insurers in inclusive insurance markets should be subject to licensing, as a level playing field is needed in this environment to encourage as many role players as possible to offer a variety of appropriate products to the market. This encourages competition, and choice regarding affordable products to consumers.
2. The principle of being able, but not obliged, to create a separate legal entity for insurance business for small entities is supported, however, should larger entities be able to offer appropriate products within a range of other services,

they should be able to do so without creating a separate entity, should they so wish.

3. Formalisation of informal services is supported. However, the point needs to be made that this may not be easily implementable in many areas. The implementation and enforcement of such formalisation requirements is a key aspect that should be considered seriously by supervisors.

Barriers to inclusive markets

1. It is extremely important that innovation to overcome barriers to entry into insurance markets, including different types of providers, different distribution and servicing approaches including premium collection and claims administration, as well as technology is considered and allowed. In the absence of flexibility in this regard, the goal of financial inclusion is almost certain not to be reached. The principle of allowing flexibility in this regard is therefore strongly encouraged.
2. Whilst we agree with all the possible barriers to inclusive markets mentioned in the Application Paper, we wish to highlight the fact that the elements of the traditional distribution network which is more comfortable with the middle or higher income segments, may not find doing business in the low income market profitable and or sustainable. Distribution of products still remains a key issue to address and this needs special attention in any application guidelines and/or standards set by supervisors. Special dispensations should be done with regards to the types of distribution channels allowed, as well as for the legislation and regulations such distribution networks need to comply with. This would include considerations regarding methods used, channels used, individuals used and their skills, knowledge, training, qualifications required, commission regimes where commission regulation exists, and any other relevant issues pertaining to the distribution and intermediation of insurance products.
3. It is also important to maintain a level supervisory playing field, to protect confidential information and to assure that supervisory costs are outweighed by their benefits so that the maximum amount of competition from formal insurers can be encouraged.

Innovative approaches

1. It is agreed that innovative approaches are needed, and should be encouraged. It is also noted that a need for consumer protection does exist in the initial stages when accessing markets where little or no experience of insurance products exist. However, we caution that an over-emphasis on consumer protection may make it difficult and/or too expensive to service such a market. The role of consumer financial education as well as disclosures to provide a basic degree of consumer protection needs to be emphasized again. Furthermore, the role of standardised consumer financial education information and standardised disclosures can make an important contribution to effective yet practical consumer protection. We believe that this is not acknowledged sufficiently in this Application Paper.

The role of simple products, fair and accessible dispute resolution and recourse mechanisms and efficient claims solutions is supported. That said, it is important to emphasize that the objective to increase access to products will not be accomplished if such measures become too costly.

2. It is quite correctly noted in this Paper that many in the underserved market regard insurance products as irrelevant for their own risk mitigation purposes as such products are perceived to rather fulfil the needs of more affluent consumers. This incorrect perception needs to be addressed through consumer financial education programmes, as well as the awareness creation about the increasing range of products tailor made for this market. Once again we would point out that the role of consumer financial education is not entirely recognised as a tool to address this issue.
3. In principle it is agreed that innovation is needed with regards to premium payment in the underserved markets, and that allowance for different arrangements should be made, e.g. weekly and other types of premiums (after harvests, for example). It is noted, that due to the current nature of systems used by traditional insurers which are not flexible in this regard, investment may be required to perform necessary changes, which will probably be low if the regulatory framework is simplified. Other premium payment mechanisms should therefore be encouraged by regulators/supervisors of insurance markets, and legislative barriers impeding the use of such mechanisms should be addressed. Examples of such premium payment mechanisms include premium payments via cellular phones and other technologically advanced systems. In addition, cash payments may be accepted, in which case regulators/supervisors should consider the risk involved when a third party collects cash from policyholders to be paid over to insurers.
4. It is agreed that a variety of distribution channels need to be utilised to serve the traditionally underserved market. In this regard we wish to note that market conduct regulation often prevents such channels from being utilised because they may be out of the ordinary. Market conduct regulation for the underserved market must be very flexible.

This becomes especially relevant when non-insurance and non-financial services entities also distribute insurance products by using their existing service delivery mechanisms for the distribution of insurance products. An example is a retail store, for instance a furniture retail store, the employees of which have the main duty of selling furniture. The consumer may wish to consider taking out the protection insurance products on offer, however, the staff member may not be in a position to comply with the same requirements a traditional insurance intermediary are often expected to comply with through existing market conduct regulation. In such cases, a different approach is needed which may include standardised consumer financial education, disclosures and other tools to assist the consumer in making an informed decision.

Objective of providing inclusive insurance products and services within the supervised market

1. This principle is supported.
2. We welcome the fact that this Application Paper makes allowances for appropriate transitional arrangements where insurance schemes had operated outside of the supervisory system in the past and therefore need to move from the informal to the formal. Should this not be considered, it would make it less attractive and more difficult for such entities to consider entering the supervisory net, and may even drive such entities further under the radar.
3. We support the principle of providing **appropriate supervision** for all entities providing insurance, and specifically including those that service the underserved market.
4. It is noted that considering granting exemptions for entities that provide insurance products to the underserved market should not be encouraged. We support the recommendation that all such entities should operate with a licence.
5. It is noted that the Paper deals with the fact that a level playing field is essential and that dual systems in a market should be discouraged. If existing insurers that have to comply with existing regulation need to compete with new entrants in the market under a different dispensation, this could result in an unequal situation and regulatory arbitrage. This needs to be considered and avoided through appropriate regulation/supervision.
6. It would be undesirable to discourage existing insurers from serving the underserved market. An option to consider is to allow entities that already comply with more comprehensive and more onerous regulation to enter the field of inclusive insurance under existing prudential requirements (addressing risk and solvency sufficiently) but to apply a more tailor-made market conduct regime that is also applicable to entities that only serve the underserved segment (for the sake of innovation and especially with regard to distribution channels). In considering this option, it will leave entities that specialise in the underserved market to only be allowed to operate within the specific conditions/requirements set for such entities.
7. Bearing the above mentioned issues in mind, as well as the need for innovative solutions for the previously underserved market, it is extremely important that flexibility in the supervisory regime is allowed and – in fact – encouraged. The recommendation that the primary law should be flexible is therefore strongly supported.
8. In addition, the recommendation that the permissible legal entities, and their definitions, as well as the definition of intermediaries should be sufficiently flexible is strongly supported. Flexibility with respect to the functions of intermediaries that may be wider than in normal circumstances should be supported as well.
9. Product innovation is a key aspect in serving this market, therefore a very simplified product filing approach is required.

10. We support flexibility regarding the bundling of life and non-life products. In fact, this is considered as one of the most important mechanisms to provide appropriate cover for individuals in low income environments, and especially in markets where low levels of awareness about the advantages of certain insurance products in mitigating risks may exist.
11. Pilot schemes pose a number of challenges. A deposit in lieu of capital or bond may not be the best approach for protecting consumers, especially if the pilot is being conducted by a supervised insurer.

Proportionality and its application to inclusive insurance markets

1. We strongly support the appropriate application of the 'proportionality principle' in supervising inclusive insurance markets, as well as the details of this application.
2. The designing of absolute minimum standards is supported and should be dealt with carefully.
3. The Application Paper sets out some guidelines which need to be followed as a minimum in order to ensure that customers are treated fairly. The undersigned support the principle of treating customers fairly and agree with the standards that seek to achieve this.
4. We support the necessity for plain and simple communication, as well as the preference stated for communication in the language of the market. The statement that insurance products for the underserved market usually pose low risk with regards to money laundering and that the principle of proportionality with regards to requirements to address money laundering and other related activities should therefore be applied in order to ensure access to such products. Undue emphasis on compliance with regulation linked with the combating of money laundering and other related activities while this is proven to not be a huge risk in financially inclusive markets, will only add cost to the operations and therefore the products thus rendering them inappropriate for low income individuals.

Roles and responsibilities

1. The important roles of both financial sector policy and the insurance supervisor in developing accessible markets for underserved segments are recognised. In this aspect a regulation promoting insurance penetration and cost-effective supervision is essential.
2. The fact that other players and specifically other government agencies may become involved in the process of creating and/or enhancing inclusive markets is noted. It is important that multiple players should address issues of coordination, cooperation and information sharing in order to assist with the overall objective of establishing inclusive insurance markets.

3. In this and other areas of regulation/supervision, governments should follow the OECD's Policy Framework for Effective and Efficient Financial Regulation, that includes the careful analysis of issues and policy options, transparency in proceedings and the adoption of the least burdensome but still effective policies.

A definition of microinsurance in regulation

1. We support the recommendation that a definition of microinsurance be provided. However, it is cautioned that definitions that are very prescriptive may inhibit the innovation that is necessary to appropriately serve the low income market. Definitions by their very nature are usually limiting rather than open, and cannot foresee potential innovation that may provide the breakthroughs needed to successfully serve the underserved market. It is therefore emphasized that defining the microinsurance market, products and/or insurers should be very carefully approached and considered.

Conclusion

In conclusion, the undersigned herewith congratulates the IAIS on a very practical and positive approach to inclusive insurance markets.

The comments and suggestions above should be considered and approached in the light in which these were put forward, and that is to address any potential oversights and/or issues in order to enhance the already excellent approach taken by the IAIS.

Signatories:

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Association for Savings and Investment South Africa (ASISA)

Association of Mutual insurers and Insurance Cooperatives in Europe (AMICE)

Canadian Life and Health Insurance Association (CLHIA)

Federación Interamericana de Empresas de Seguros (FIDES)

Mexican Association of insurance Companies (AMIS)

German Insurance Association (GDV)

Insurance Bureau of Canada (IBC)

Insurance Europe

Property Casualty Insurers Association of America (PCI)

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