Proportionate Regulatory Frameworks in Inclusive Insurance:

Lessons from a Decade of Microinsurance Regulation

November 2016

Abbreviations

A2ii	Access to Insurance Initiative
AML	Anti-money Laundering
BMZ	Federal Ministry for Economic Cooperation and Development, Germany
BRL	Brazilian Real
Cenfri	The Centre for Financial Regulation and Inclusion
CGAP	Consultative Group to Assist the Poor
CIMA	Conférence Interafricaine des Marchés d'Assurances
FIWG	Financial Inclusion Working Group
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
GSMA	Groupe Speciale Mobile Association
IAIS	International Association of Insurance Supervisors
IC	Insurance Commission, the Philippines
ICP	Insurance Core Principle
ILO	International Labour Organization
IRDA	Insurance Regulatory and Development Authority, India
LAC	Latin America and the Caribbean
MCCO	Mutual, cooperative and community-based organisation
MEFIN	Mutual Exchange Forum for Inclusive Insurance
MFI	Microfinance institution
MIN	Microinsurance Network
MI-MBA	Microinsurance mutual benefit association
MNO	Mobile network operator
NFIS	National Financial Inclusion Strategies
NGO	Non-governmental organisation
NIC	National Insurance Commission, Ghana
PEN	Peruvian Nuevo Sol
PHP	Philippine Peso
RFPI	Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia
SACCO	Savings and credit cooperative
SBS	Superintendencia de Banca, Seguros y AFP, Peru
SECP	Securities and Exchange Commission, Pakistan
SEGURO	Solvency, Efficiency, Governance, Understanding of Microinsurance, Risk Management and Outreach of Clients
SUSEP	Superintendencia de Seguros Privados, Brazil
TSP	Technical service provider
USD	United States Dollar

Introduction

It is just over a decade since the first microinsurance[1] regulation was introduced in India in 2005. In this booklet, we look back at what supervisory approaches have been undertaken since then, and draw lessons from the past. We also look forward and examine some of the ongoing and emerging challenges insurance supervisors[2] find themselves confronted with, particularly with regard to formalisation, data, government involvement, mass distribution and digital technology.

In many ways, regulatory constructs and assumptions no longer apply in the same way. Supervisors now have to deal with relationships that did not exist in the past. For example, the commercial insurer was traditionally the strongest party in the insurance value chain; in the inclusive insurance space, it is often now secondary to new types of intermediaries such as retailers or mobile network operators (MNOs). Governments are also increasingly designing large-scale insurance initiatives, sometimes also acting as risk carriers driven by policy agendas outside of the financial sector such as climate change or food security. Underlying all these changes are the new risks emerging from technological innovations. These advances are forcing a shift in how supervisors think and their ensuing regulatory approach.

The booklet draws on the intensive discussions at an Expert Symposium organised in Washington in December 2014. In addition, it includes lessons learnt from the A2ii's experience working with insurance supervisors on the ground. It also marks the 10-year milestone of the IAIS' engagement in financial inclusion. This was in the form of a Joint Working Group on Microinsurance, which was established in 2006 by the then CGAP Working Group on Microinsurance (later the Microinsurance Network (MIN)) and the IAIS. The Joint Working Group was first complemented, and later replaced by a permanent committee dedicated to Financial Inclusion within the IAIS committee structure namely the IAIS Financial Inclusion Subcommittee, later renamed the Financial Inclusion Working Group (FIWG).

EXPERT SYMPOSIUM ON PROPORTIONAL REGULATORY APPROACHES IN INCLUSIVE INSURANCE MARKETS, DEC 2014

In December 2014, the Access to Insurance Initiative (A2ii), the International Association of Insurance Supervisors (IAIS), and the Consultative Group to Assist the Poor (CGAP) hosted an Expert Symposium on ´Proportional regulatory approaches in inclusive insurance markets – Capturing what we learnt for the future´. The Symposium, which marked a decade since the first microinsurance regulation was introduced in India in 2005, provided an opportunity to look back at what has worked over the years and what has not.

This event provided an enabling platform to systematically generate lessons from global experience in regulation and supervision of inclusive insurance. The one-and-a-half-day Symposium was attended by 33 delegates representing supervisors, development agencies, international development cooperation, and regulatory experts from 14 different jurisdictions.

Washington Symposium, December 2014

1 Various definitions of microinsurance exist. The IAIS has defined it as follows: "Microinsurance is insurance that is accessed by low-income population, provided by a variety of different entities, but run in accordance with generally accepted insurance practices (which should include the Insurance Core Principles). Importantly this means that the risk insured under a microinsurance policy is managed based on insurance principles and funded by premiums. The microinsurance activity itself should therefore fall within the purview of the relevant domestic insurance regulator/ supervisor or any other competent body under the national laws of any jurisdiction." The Microinsurance Network defines it as follows: "'Microinsurance' typically refers to insurance services offered primarily to clients with low income and limited access to mainstream insurance services and other means of effectively coping with risk".

2 Supervisors refer to both supervisors and regulators.

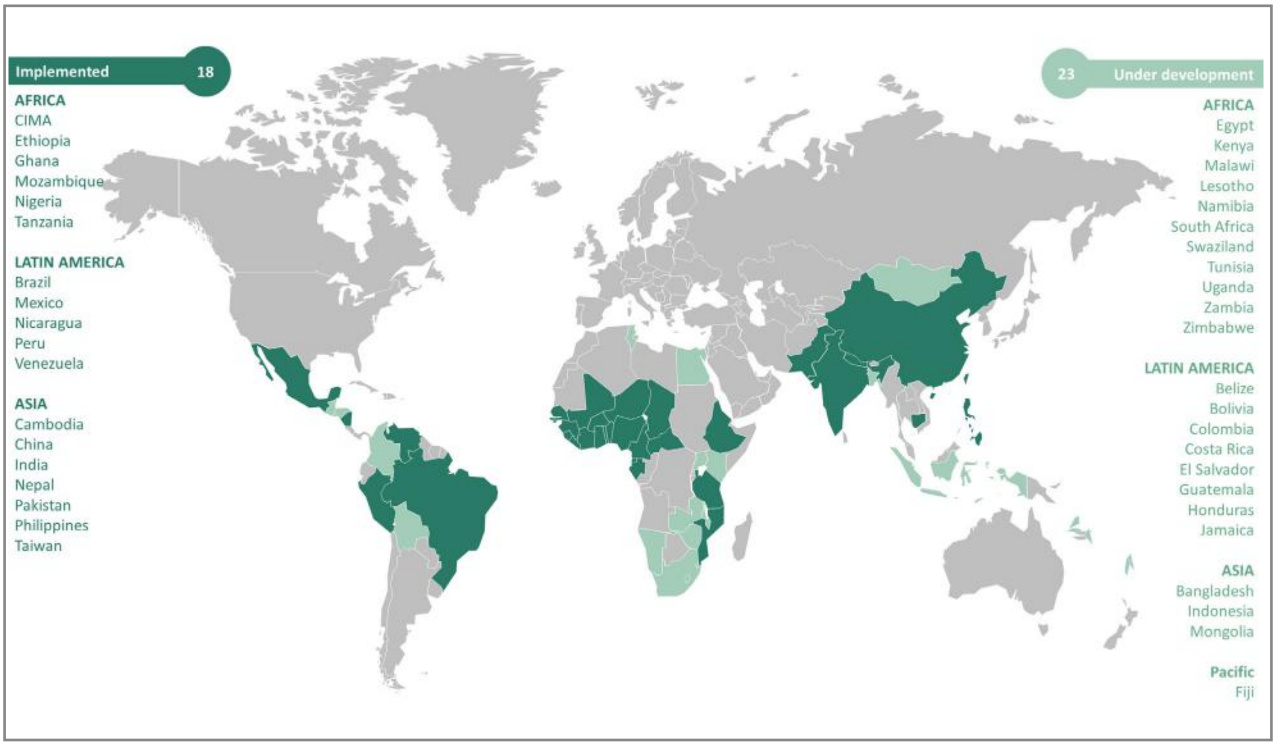
Background

Inclusive insurance is a broad concept. The IAIS defines it as “all insurance products aimed at the excluded or underserved market, rather than just those aimed at the poor or a narrow conception of the low-income market”. The term ‘microinsurance’, on the other hand, is defined more specifically: “insurance that is accessed by the low-income population, provided by a variety of different entities, but run in accordance with generally accepted insurance practices (which should include the Insurance Core Principles (ICPs))”[3].

For many supervisors, the development of inclusive insurance markets started with microinsurance. In recent years, however, the focus has increasingly expanded beyond microinsurance to looking at inclusive insurance as a whole, meaning all insurance that ultimately contributes to making the insurance market more inclusive [4]. Supervisors have begun to proactively explore or acknowledge different regulatory or policy approaches to increase the availability of insurance to other excluded and underserved groups in their jurisdictions. In addition, there is a growing recognition among governments in developing and emerging economies that insurance can play a role in protecting the economically vulnerable; as such, inclusive insurance is increasingly incorporated in broader economic development policy agendas. In the meantime, given the majority of inclusive insurance regulatory frameworks in the last decade have focused on microinsurance, this report will focus mainly on microinsurance regulations.

Over the last decade, at least 18 insurance supervisors have adopted a microinsurance-specific regulatory framework. At least another 23 countries are in the process of developing some form of microinsurance-specific regulations. This is remarkable progress compared to the early days of microinsurance market development.

Diagram 1: The state of microinsurance regulations



3 See *Issues Paper on Conduct Business in Inclusive Insurance* (IAIS, 2015) and *Issues In Regulation and Supervision of Microinsurance* (IAIS, 2007).
4 See Box 8 for a discussion on mass insurance

The initial impetus for developing microinsurance regulations varies among countries. When the first microinsurance regulation was introduced in India in 2005, it was to kick-start insurance products, their distribution and uptake for economically vulnerable people at a time where such a market did not exist. Microinsurance regulations were also introduced in some instances as a targeted policy response to immediate challenges, such as regulatory barriers in existing product rules or inadequate transparency rules. In the Philippines, a dedicated framework for microinsurance was developed primarily to address the high levels of informal insurance activity. This had led to consumer protection concerns, and therefore the need to regulate these activities by bringing them into the formal financial system. Peru's microinsurance regulations sought to create a wider range of microinsurance distribution channels for insurers to utilise, while also focusing on consumer protection. In all cases, supervisors put in place microinsurance regulations as a catalyst to grow the inclusive insurance market.

When developing microinsurance regulations, supervisors have sought to strike a delicate balance between establishing an enabling business environment and ensuring vulnerable consumers are protected. On one hand, consumer protection needs to be adequate for a customer base that is new to insurance. This is particularly critical as the inclusive insurance customer's profile[5] is such that they are typically less well-educated or financially aware, and at the same time, more financially vulnerable. As such, the need for insurance to provide value-for-money and engender trust becomes even more paramount. On the other hand, supervisors recognise that insurers need a regulatory environment that provides adequate flexibility and opportunities to operate in a commercially sustainable manner. Inclusive insurance customers in many cases are geographically more difficult to reach, often too costly for traditional distribution channels. Many companies have found difficulty reaching the economies of scale needed to achieve business viability.

Over the past five years, there has been an increasing focus on applying the concept of 'proportionality' in inclusive insurance regulations. Proportionate application of the ICPs means that supervisory measures should be appropriate to attain the supervisory objectives of a jurisdiction and the desired outcome of the ICPs, and should not go beyond what is necessary to achieve those objectives. The ICPs therefore provide the flexibility to tailor supervisory requirements and actions so that they are commensurate with the nature, scale and complexity of risks posed by individual insurers to the insurance sector or to the financial system as a whole. This approach should assist in promoting financial inclusion and market development objectives[6]. Microinsurance regulatory frameworks today are generally founded on this concept, even though they may not explicitly mention 'proportionality'.

However, the discussion within the supervisory community as to what the right balance between consumer protection and market development is continues. This answer to this is not a straightforward one, as it varies depending on each country's context – economic, political, socio-cultural factors, the state of existing social protection frameworks or infrastructure, the specificities of insurance legislation, as well as regulations governing banking, e-payments, cooperatives and telecommunications. Regulatory challenges constantly evolve as new market trends, such as new players and technologies, emerge. It is thus timely to reflect upon how inclusive insurance regulations have developed over the past decade – what has or has not worked, what the upcoming trends are, and what important lessons must be borne in mind as the market moves forward.

5 See IAIS Issues Paper on *Conduct of Business in Inclusive Insurance* (2015)

6 The IAIS has published a number of papers providing guidance looking into applying the proportionality concept in various aspects. For a full list see Annex: Bibliography and Further Reading Material.

1. The Status of Market Development

The face of the inclusive insurance landscape worldwide has changed significantly over the last decade. This chapter examines the main aspects of market development and how these have evolved – key market indicators, products, risk carriers and distribution.

1.1. Market indicators

Microinsurance markets have grown significantly in all regions in the past decade. Adding the latest available data on the total number of people insured in each region, there are approximately a total of 281 million people insured (2013-2015 data, depending on region). Other sources estimate that approximately 500 million[7] microinsurance policies have been sold in the past decade. This is a drastic growth from the 78 million policies in the 100 poorest countries recorded in 2007[8]. Africa, in particular, has experienced tremendous growth. However, when compared with the potential size of the low-income market—four billion unserved and underserved by insurance in total[9]—much of this appears untapped. This is especially so in Africa and Asia, where the coverage rate of microinsurance, as measured by the number of lives or properties covered out of the total population, is 4.4% and 4.3% respectively compared with Latin America and the Caribbean (LAC) at 7.6%[10].

Table 1: Key microinsurance data by region

	Latin America and the Caribbean		Africa		Asia[3]
	2011	2014[1]	2012[1]	2015[1]	2013[1]
N° of countries in the region with microinsurance[2]	19	21	39	36	24
N° of insurers offering microinsurance	99	94	511	200[3]	228
N° of products	159	200[3]	598	270[3,4]	507
N° of lives or properties covered (mn*)	45.5	48.6	44.4	61.8	170.4
Growth over denoted period (%)		7		39	
Covered population (%)	7.6	7.9	4.4	5.4	4.3
Reported gross premium collected (USD mn)	860	828	548	756	829

Source: The Landscape Studies *mn = million

1 Based on preceding year's data
2 Denotes no. of countries in the study that reported microinsurance activity. Total existing countries by region, based on the United Nations' geographical region and composition list are: LAC (51), Africa (58) and Asia (75).
3 Denotes the minimum known.
4 The 2012 number is significantly higher here as three respondents were aggregators representing 39, 76, and 237 community-based groups respectively. Such community-based groups were only able to be counted at the aggregate level in 2015.

7 See *Microinsurance and Emerging Markets* by the Insurance Information Institute, available at http://www.iii.org/issue-update/microinsurance-and-emerging-markets.

8 All figures are taken from The Landscape of Microinsurance in the World's 100 Poorest Countries, *The Landscape of Microinsurance in Africa 2012, The Landscape of Microinsurance Africa 2015, The Landscape of Microinsurance in Latin America and the Caribbean (for 2011), The Landscape of Microinsurance in Latin America and the Caribbean 2014, The Landscape of Microinsurance in Asia and Oceania 2013, which shall be collectively referred to as the Landscape Studies.*

9 Based on World Bank statistics, around 4 billion people are living on under $4/day (in 2005 international dollars based on Purchasing Power Parity). This figure includes 2.6 billion people living on under $2/day (Swiss Re, 2010).

10 Gathering accurate and comparable regional data was often a challenge. Not all insurers who offer microinsurance reported to the studies conducted. Sometimes data was provided by intermediaries, in which case getting an exact number of insurers proved to be difficult. In terms of products, some companies reported all products under the same business line as one product, while others reported each product separately. In Asia in particular, sample sizes are often less than fully representative. The figures for Asia are general, agreed-upon estimates. A global database has been set up in 2015. See The Microinsurance Network's World Map of Microinsurance (http://worldmapofmicroinsurance.org/).

1.2. Products

Over the last 10 years, product lines have become more diverse. Most markets started out predominantly with life, personal accident and credit life products. While these product lines continue to be dominant, in all regions the industry is diversifying into health, agriculture and property insurance. This trend signifies the increasing maturity of the market both from a demand and supply point of view. Insurers are increasingly adapting more to consumer needs and preferences, adopting more sophisticated business strategies, and widening their outreach and scale of operations by leveraging on technological advancements, partnerships with non-traditional intermediaries and government support.

Life, accident, and health microinsurance constitute a majority of the market, in contrast to relatively nascent growth in property and agriculture microinsurance. There is however some regional variation:

- In Africa, life, personal accident and health have constituted most of the market over the past decade. Although health, property and agriculture were initially underdeveloped compared to life, the growth of these product lines has outstripped life in recent years[11], a promising sign that products are evolving and diversifying. Health covers, notably, experienced a boom due to four new programmes offering hospital cash or hospitalisation covers via MNOs.
- In Asia, the most dominant products are life and personal accident. Health insurance includes the highest number of products, mainly provided as primary care. Excluding government-supported health insurance programmes, health insurance on aggregate contributed less to growth and coverage compared with life and accident. Most notably however, the number of agriculture insurance policies grew over 100% in the period between 2010 and 2012, boosted by government support and alongside innovations in parametric insurance that allowed agriculture insurance to be provided at scale.
- As for LAC, credit life, which has long been the dominant product, continues to lead together with short-term life and personal accident products, being the usual entry product for insurers that are new to the microinsurance market. Credit life remains the fastest growing product line. Health insurance comes third after life and personal accident – a significant improvement compared to the early part of the decade where there were minimal health products on the market. The growth of property and agriculture microinsurance, while having picked up in recent years, is still low relative to other product lines. In LAC it was found that property microinsurance tends to be offered by the more experienced providers.
- Across all regions, property comprises less than 5% of premiums. Many agriculture insurance schemes also currently rely at least partially on government support.

Bundling, or embedding insurance[12], has been a key selling strategy and continues to grow. One reason bundling insurance with another product or service (insurance or otherwise) has flourished is that it is an effective way of achieving scale. This is especially important where there is low demand or it is too costly to distribute insurance as a standalone product. In Africa, a third of microinsurance premiums in 2014 were for multi-risk or for bundled products offering more than one type of coverage. Almost half of LAC microinsurance products studied in 2013 were multi-risk: life and personal accident, health and life, and other combinations. A similar trend is observed for life and accident products in Asia. Bundling is also commonly done with non-insurance services. The non-insurance service provider acts as a client aggregator[13], providing insurers with access to their customer bases while benefitting from the value-add that insurance provides. For example, credit life allows the financial institution to protect their loans in the event of the death or disability of the client. Another example is microinsurance that is provided free with mobile airtime purchases, which enables MNOs to attract new customers and encourages customer

11 See *the Landscape Studies.*

12 Embedded insurance is an insurance cover that is tagged along with other products (See IAIS Application paper on *Regulation and Supervision supporting Inclusive Insurance Markets*, October 2012). This practice is also known as 'bundling'. The other product could be financial services such as loans, electronic payments or other kinds of insurance, or non-financial services such as funerals, sale of seeds and fertiliser, electricity or other utility bills, or mobile-phone airtime.

13 Client aggregators are entities such as retailers, service providers (utility companies), membership-based organisations, or civil-society organisations that bring together people for non-insurance purposes and are utilised by insurers, with or without the intervention of another party, to distribute insurance. Their roles and activities in a business model vary depending on the scale of the aggregators or the relationship they have with their customers or members. For example, aggregators such as MNOs can operate as mass market channels, while a cooperative can act as a collective decision-makers on behalf of their members. Sometimes they also act as TSPs (A2ii, 2014 and 2016).

loyalty. There are also MNO sales models that promote paid products either in full or in part, such as where basic coverage is provided for free but the client may pay an additional amount of premium to upgrade the coverage to a higher sum or to extend the coverage to family members. These are also called “freemium” products.

Products have evolved to better adapt to customer needs. Providers have found new ways to provide more flexibility and adapt to individual needs and preferences. In terms of products and services, this includes fast claims payment, easier enrolment processes or flexible premium payments, which suit populations with irregular or low income. Many health microinsurance products also provide additional value-added non-insurance services, such as the ‘Dial-a-Doctor’ scheme, health camps offering free vaccinations and consultations, outpatient benefits, access to low-cost medicine and emergency medical assistance[14]. This evolution has also happened from a marketing point of view – to tailor to the local cultural perceptions, some insurers have adapted the way microinsurance is communicated, like discussing a ‘life plan’ or ‘last expense cover’ rather than ‘funeral insurance’.

Innovative product lines like index insurance have gained traction in the later part of the decade and are expected to continue undergoing significant innovation. Index or parametric insurance is insurance that does not relate directly to losses, i.e. is not indemnity-based, but relates to a parametric index that triggers payouts. This is most often found in agricultural insurance, particularly crop insurance[15]. Index insurance works such that when a predetermined level of an ‘index’ is reached, such as a certain level of rainfall or flooding , an insurance pay-out is triggered. For example, when a flood, storm, or drought occurs and causes a drop in the yield of a crop below a pre-determined threshold, clients receive pay-outs. Index-based insurance products are slowly increasing with numerous pilots launched by governments, development agencies, reinsurers, and occasionally, commercial insurers[16]. In developing countries, it is found that these schemes almost always involve government support or leadership. Given that it is often introduced as part of other policy agendas such as climate change adaptation, food security, or agricultural development, supervisors are not always involved in these schemes. As a result, while these schemes often benefit low-income consumers, they are not always part of the microinsurance or insurance regulatory framework. Index insurance has the potential to achieve scale, as there is no need for a costly indemnity-based loss assessment. However, these products are often complex to design and implement. Challenges such as limited availability of reliable and timely data that correlates with the risk, costs of infrastructure (weather stations, sensor instalments and maintenance, technical experts), lack of financial literacy, basis risk[17] and distribution make these products difficult to launch and sustain without significant subsidies. These pose challenges for supervisors, and are worth exploring further from a regulatory perspective, a key one being how to integrate index insurance pilots into the insurance supervisory regime and ensure that the appropriate levels of oversight and consumer protection are accorded[18].

1.3. Risk carriers

A decade ago, it had been expected that organisations such as mutuals, cooperatives and other community-based organisations (MCCOs) would scale up their microinsurance businesses and become leading risk carriers of microinsurance. Contrary to the predictions of those observing the sector in the early years, commercial insurers are the predominant risk carriers of microinsurance today. However, while MCCOs are not the main risk carriers, they are larger in numbers and maintain a strong foothold in the communities in which they operate. They are therefore very important intermediaries in the microinsurance value chain. Some also act as informal risk carriers. In addition, a recent development has been the entry of non-insurance shareholders into the insurance industry, particularly MNOs.

14 See Briefing Note on the 6th Consultative Forum, Innovative products for the emerging consumer held on 11-12 May 2016 in Marrakech, Morocco and Value-Added Services in Health Microinsurance (Pott and Holtz, 2013)

15 In Asia as at 2012, livestock insurance was found to be almost exclusively indemnity-based while crop insurance is primarily weather index or area yield index-based.

16 See http://www.infodev.org/climate

17 Index insurance creates the potential of a mismatch between the actual loss and the loss determined by the index. This is known as ‘basis risk’ (IAIS 2015).

18 See A2ii Policy Note How agricultural insurance can improve food security – and why regulation matters (A2ii, 2016).

Commercial insurers are the predominant risk carriers of microinsurance in terms of premiums, lives and properties insured, and number of products registered in all regions. In LAC markets, 90% of all microinsurance providers are commercial insurers. In Asian markets, commercial insurers hold 70% of all lives or properties insured, out of the 12 categories of insurers identified (including commercial insurers, community-based organisations, non-governmental organisations (NGOs), government agencies, and hospitals). They also underwrite 304 of the 507 products in the market. In Africa, commercial insurers account for only 12% of those providers taking on microinsurance risk, but cover a full 77% of the lives and properties insured in the region, indicating their economies of scale compared to community-based providers[19].

BOX 1:
Comparison of key features of inclusive insurance markets in different jurisdictions

- In **the Philippines**, MCCOs are the dominant risk carriers. Since 2001, cooperatives or microfinance institutions (MFIs) have been establishing dedicated microinsurance providers known as the Microinsurance Mutual Benefit Associations (MI-MBAs), which are able to directly underwrite microinsurance products. As of end-2014, there were 22 active MI-MBAs in the life microinsurance market, providing cover to 4 million members and their family members, altogether 13 million people. One MBA also chose to establish a partnership with a commercial insurer; the largest MI-MBA (Card MBA) partnered with the commercial insurer, Pioneer Insurance to tap into the non-life market (RFPI 2015).
- In **Ghana**, the first decade of microinsurance growth had been largely driven by commercial insurers in the absence of any other legal form such as mutuals. While MNOs have become increasingly prominent in insurance as distribution channels, their growth has largely been as a result of involvement of Technical Service Providers (TSPs) in the value chain. Commercial insurers remain the dominant risk carriers.
- **South Africa** has a long history of mutual burial societies, funeral parlours and registered insurers providing funeral cover for the low-income market. The form of the benefits provided differs. Cover provided by burial societies typically includes a cash benefit and 'helping hands' from other group members for funeral preparations, funeral parlours often provide in-kind benefits in the form of a funeral service while insurers provide cash benefits. The proposed microinsurance regulations aim to formalise the insurance activities of funeral parlours. Funeral parlours will have the option of acting as an agent of a registered insurer or becoming a licensed microinsurer under these regulations.
- In **Cambodia and South Africa,** MNOs such as BIMA-Milvik and Vodacom SA, respectively, have set up as commercial insurers offering microinsurance (BMZ 2015, Wiedmaier-Pfister and Leach). These players are a relatively recent market phenomenon which warrants special consideration from a regulatory point of view.

In terms of numbers of organisations, MCCOs outnumber commercial insurers; however, their market share is much smaller. In Asia and Africa, MCCOs tend to outnumber commercial insurers despite representing a comparatively small percentage of microinsurance premiums. In Africa, 77% of providers are community-based organisations, yet they only cover about 12% of the total insured lives and properties. This is not entirely surprising, as MCCOs by nature tend to be small organisations operating in smaller localities. In Asia, with the notable exception of the Philippines, the majority of MCCOs are not active as risk carriers – many enter into a partner-agent model with a commercial insurer. The magnitude of MCCO involvement in LAC however remains unclear. Informal provision of microinsurance by MCCOs is also still prevalent in some countries across all regions. Examples include Nepal (Savings and Credit Cooperatives (SACCOs) providing in-house insurance schemes), Ghana (Credit Unions offering in-house insurance) and Paraguay (Savings and Credit Cooperatives with their" solidarity schemes").

19 All figures in this section come from the Landscape Studies unless otherwise specified.

Governments have been increasingly involved in providing inclusive insurance, especially in Asia. Driven by policy agendas such as healthcare or agricultural and rural development, economic development, social security, food security, disaster risk mitigation and climate change, many governments have recognised the important role of insurance in protecting their populations and businesses against a variety of risks. As a result, they have played an increasingly visible role especially in product lines that the private sector has little interest or capacity to provide. These roles cover a wider range, from directly developing the insurance schemes, fully or partly financing premiums for certain risks or population segments, subsidising insurance infrastructure, to implementing other forms of public-private partnerships in the areas of agricultural insurance or social protection. Schemes in which governments typically play a more direct provider role include agriculture insurance (mainly crop and livestock), disaster insurance, or occasionally, health and life insurance for targeted vulnerable regions or groups such as ageing populations or the rural poor. Government involvement is the highest and most extensive in China and India[20] .

1.4. Distribution

The intermediary landscape has changed significantly, with a much wider range of channels being used today. A decade ago, microinsurance was mostly distributed by community-based organisations and microfinance institutions (MFIs). Today, riding on the wave of financial technology innovation and an increased number of partnerships with large-scale client aggregators (mass market channels), distribution models have changed and are increasingly dynamic. Regional variations and preferences in distribution model are also quite marked.

> *The insurance value chain is very different in mass distribution.*

There has been an overall shift from an MFI-dominated distribution landscape towards a more diverse range of new channels. In Africa, mass market channels such as MNOs, retailers, and funeral parlours are the leading channels, taking up almost half the market. Agents and brokers constitute about a quarter, while MCCOs have the least outreach. In LAC, the change in the landscape has also been dramatic. MFIs, given their capture of an extremely wide client base, have traditionally been the main distribution channel. While they continue to have a dominant presence, a majority of product growth in the last half of the decade has been attributed to non-MFI channels, especially mass market channels[21]. This comes as part of a wider overall shift towards mass insurance in LAC. In contrast, the intermediary landscape in Asia is dominated by MCCOs, many of whom started out as risk carriers but eventually shifted to a partner-agent model with commercial insurers. MFIs come in second, followed by agents and brokers, and to a smaller extent, specialised microinsurance agents; Mass market channels have played a marginal role, as the 2013 data suggests. In more recent years however, MNO-driven mobile insurance has become increasingly prominent. Different intermediaries also typically have their respective niche products; for instance, utility companies in LAC distribute a majority of property insurance, while MFIs drive mainly credit life products.

The range and roles of microinsurance intermediaries have changed, resulting in a longer value chain[22]. More frequently, microinsurance intermediaries are client aggregators who have existing infrastructure and access to large client bases, which extends the reach of microinsurance to previously unserved consumers at scale and in a cost-efficient manner. They also tend to have a closer relationship with the communities they serve compared to traditional agents and brokers. Recognising this, providers have leveraged on this characteristic in developing their business models[23]. Beyond just marketing and sales, it is not uncommon for microinsurance intermediaries today to act as a TSP[24] and take on the tasks of product development, premium collection, claims administration

20 See Scale: Thinking Big (Thom, Gray, Müller, and Leach, 2014) and Innovations and Emerging Trends in Agricultural Insurance (Hess and Hazell, 2016)

21 See Mapfre Seguros: Retailer microinsurance distribution in Brazil (Smit and Smith, 2011).

22 See report from 15th IAIS-A2ii Consultation Call Proportionate Approaches to the Supervision of Intermediaries (A2ii, 2016).

23 A business model is generally defined as the method or means through which a company captures value from its business. This can be based on many different aspects, including how products are designed, priced, marketed, and distributed. See IAIS Issues Paper on Conduct of Business in Inclusive Insurance (IAIS, 2015).

24 Depending on the role, TSPs are licensed differently by supervisors. Some are treated as third-party outsourcing parties, some are licensed as brokers while some may not be regulated.

or consumer education. E-money providers, for example, provide access to their client base while servicing premium collection.

The use of technology in various forms and functions across the value chain has also been on the rise. This began in the earlier part of the decade with process automation such as online processing and claims submissions, issuance of smartcards and barcodes to policyholders. In recent years, in line with improved mobile and satellite-based technology, providers have been able to avoid traditional and costly infrastructure for client identification, sales, administration, and payments. An obvious example is the phenomenon of MNO-driven products, which have been the main accelerators of market growth in many markets in recent years. In Africa, five out of seven high-growth products launched between 2011 and 2014 were distributed via MNOs. Mobile insurance has experienced considerable growth in Africa compared to LAC and Asia.

2. A Decade of Inclusive Insurance Regulation

This chapter documents how insurance supervisors have reacted to the market trends described in the first chapter. While the exact approach has differed among countries, a number of similarities can be observed both within and between regions.

2.1. National strategies

Some jurisdictions put in place an overarching national strategy that provides the impetus for the development of microinsurance regulations. The scope and objectives of these strategies differ among jurisdictions, depending on jurisdiction-specific cultural, historical, political, legal and economic factors. The scope could range from broader socioeconomic development strategies like national development plans to more sector-specific objectives such as financial sector development, financial inclusion[25] or financial education. In such cases, microinsurance would then be integrated into the national strategy. These strategies are not developed or issued by the insurance supervisor but established in conjunction with other government or supervisory authorities, such as the economic planning, agriculture or finance ministry.

2.2. Microinsurance policy papers

Several supervisors have issued policy papers which set out to address microinsurance development specifically. These papers establish the supervisor's policy objectives and regulatory roadmap and approach, and frequently form the basis for the subsequent development of microinsurance regulations. One key benefit is that they provide a clear signal to the industry that the insurance supervisor is supportive of microinsurance, thus encouraging industry participation. The policy is often developed in consultation with stakeholders in the microinsurance sector, such as the industry or other supervisory authorities, and sometimes even jointly developed. How a regulatory framework for microinsurance is put into effect varies between countries. The type and breadth of legal instruments used can range from specific clauses incorporated in existing insurance regulations, to a dedicated microinsurance regulatory framework comprised of various circulars, department orders or regulations.

BOX 2: Country examples of microinsurance policy papers

- **The Philippines**' Microinsurance Framework (2010-13) was issued sequentially and covers the National Strategy on Microinsurance (2010), Regulatory Framework for Microinsurance (2010), Roadmap to Financial Literacy on Microinsurance (2011) and Alternative Dispute Resolution Mechanism Framework for Microinsurance (2012). Pursuant to these papers, the Philippines issued over 20 different legal instruments to effect the regulatory changes.
- **Ghana**'s 'Microinsurance Policy Paper' (2010) outlines the plan and policy recommendations for the regulation and supervision of microinsurance, plus the approach, principles and key elements underlying this process.
- **Pakistan**'s Strategic Framework for Microinsurance Development was developed by the Securities and Exchange Commission of Pakistan (SECP) with the assistance of GIZ Regulatory Framework for Promotion of Pro-Poor Insurance Markets in Asia (RFPI Asia), and unveiled at a multi-stakeholder dialogue which included the State Bank, Pakistan Telecommunications Authority, National Disaster Management Authority and the industry.
- **South Africa and Kenya** published policy papers in advance of issuing their microinsurance regulations.

25 The World Bank defines National Financial Inclusion Strategies (NFIS) as roadmaps of actions, agreed and defined at the national or subnational level, which stakeholders follow to achieve financial inclusion objectives. See http://www.worldbank.org/en/topic/financialinclusion/brief/national-financial-inclusion-strategies for examples.

2.3. Laws and regulations

Microinsurance is a specific business line with products which are designed for and accessed by the low-income segment. Microinsurance contributes to a more inclusive insurance market, integrating low-income clients that were previously unserved or underserved. Supervisors adopting a proportionate regulatory framework for microinsurance have generally focused on three main elements.

- **A definition of microinsurance** to describe and delineate this business from other types of insurance;
- **Enabling regulatory treatment** to encourage industry provision of microinsurance and enable innovation;
- **Consumer protection requirements** to adequately protect the typically more vulnerable inclusive insurance consumers.

2.3.1. Definition of microinsurance

While supervisors have undertaken different approaches to defining microinsurance, current definitions tend to have a few key parameters in common. These parameters are: (i) the consumer group that is intended to be served by microinsurance[26]; (ii) characteristics of a microinsurance product or business line; (iii) who can underwrite microinsurance; (iv) how and through whom microinsurance can be distributed; and (v) what a microinsurance contract must entail. These parameters and how they are defined play a key role in differentiating microinsurance from other insurance and also shaping the impact of the regulations, such as spurring innovation and consumer protection. A number of observed cases of unintended consequences of microinsurance regulations, such as regulatory arbitrage and distortion of competition, have been attributed to the inherent design of the definition[27].

Supervisors define these parameters qualitatively, quantitatively or a combination of both, often depending on how prescriptive the supervisor intends to be.

Qualitative definitions are often used as a way to articulate the policy objective of microinsurance or the regulations, for example in regulatory or policy strategy papers. Given the objective often tends to be broader, it has been useful in providing flexibility to the industry or maintaining the supervisor's discretion over what is and is not considered microinsurance, especially if there is some form of product approval procedure involved. It may also be a reflection of an overall supervisory philosophy that is more principles-based rather than rules-based regulation.

Quantitative definitions are employed when more definite clarity is needed. For example, supervisors have set limits on sums assured, premiums or income thresholds of the target consumer group to ensure that microinsurance is easily distinguishable from other products for purposes of applying specific supervisory requirements, flexibilities or incentives. The granularity also varies between jurisdictions; Brazil, India and Pakistan apply specific quantitative parameters to each separate product line, while the Philippines and Peru apply it generally to all microinsurance products.

26 See Section 6: A definition of microinsurance in regulation in the Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets (IAIS, 2012).
27 See reports from 1st and 16th A2ii-IAIS Consultation Calls, *Definition of Microinsurance in Regulation (A2ii, 2014) and Regulatory Definition of Microinsurance II* (A2ii, 2016), respectively.

BOX 3: Country examples for definitions of microinsurance

Country	Definition
Brazil	Definition is based on quantitative limits which differ according to the insurance product line. These limits vary between a maximum cover of BRL 50 or USD 16 per day for hospitalisation, BRL 24,000 or USD 7,500 for death and BRL 60,000 or USD 18,700 for small business property.
The Philippines	The current definition, which was put in place in July 2013, is a daily premium cap of PHP 35 or USD 0.81, and a maximum coverage of PHP 466,000 or approximately USD 11,000 at that time. First introduced in 2006 with a maximum coverage of PHP 175,000 or approximately USD 3,400, it was changed in 2010 to lower the premium cap and increase the maximum cover slightly. It was changed again with the new insurance law in July 2013, this time introducing a significantly higher maximum coverage.
Peru	Microinsurance is defined based on a combination of qualitative and quantitative parameters in order to allow more flexibility in the product development while ensuring the delineation of microinsurance is clear: • It is designed to meet protection needs of and is affordable to the low-income and / or micro entrepreneurs; • it is marketed by those whose target audience includes people with low incomes and / or micro entrepreneurs; and • The monthly premium does not exceed two percent (2%) of the national monthly minimum wage (currently USD 253 or PEN 850), which makes a premium of approximately USD 5.

Ghana	Notably, the National Insurance Commission (NIC) introduced a broader qualitative definition, instead of a quantitative one, with the intention to let the microinsurance market develop without being overly prescriptive:
	• The insurance contract must be designed and developed with the intention of meeting the needs of, and being marketed and sold to:
	    ◦ Low-income persons generally;
	    ◦ Specific types or descriptions of low-income persons; or
	    ◦ Low-income persons in a particular geographical area.
	• The premiums charged under the insurance contract must be affordable for those low-income persons for whom it was designed and developed; and
	• The insurance contract must be accessible to those low-income persons for whom it was designed and developed.

Supervisors have used two main approaches in carrying out the licensing and supervision of microinsurance:

- **Functional or business line approach:** Microinsurance is supervised as a distinct business line. This involves a definition of 'microinsurance' as a product or business line, where the regulations are applied to products or business lines that match the definition. This is the most common approach and is used in countries such as Brazil, India, Peru, Mexico, Taiwan, China, Philippines, Ghana, and in the CIMA region[28]. This approach would be most relevant to cases where microinsurance is offered by traditional insurers as part of a broader portfolio of insurance business lines.

- **Institutional approach:** A dedicated microinsurance license is issued to a specific tier of risk carriers which are legal entities, such as a mutual or a company. Entities licensed as microinsurers are typically subject to less stringent licensing and prudential requirements (e.g. minimum capital, solvency, risk management requirements); however, in return, they are usually only allowed to engage in limited types of insurance business lines. This is the case in the Philippines, Cambodia, CIMA and Brazil. This approach is most relevant in cases where a significant number of risk carriers are smaller providers such as MCCOs which have insufficient capacity to meet the requirements that apply to a full-fledged commercial insurer. The other reason for creating a microinsurance license is to motivate the market, given that commercial insurers are reluctant to enter this business. Often, these organisations start out as informal providers, spurring the need for supervisors to create regulatory requirements that can support their formalisation. Supervisors who undertake an institutional approach also usually have a dedicated microinsurance department (such as in the Philippines and South Africa).

  The two approaches are not mutually exclusive. Some markets apply both the functional and institutional approaches. Countries in the CIMA region, Brazil, Cambodia and the Philippines are all pertinent examples where the supervisor issues a dedicated microinsurer licence but commercial insurers are still able to offer microinsurance as part of their insurance business. However, many jurisdictions do not have a separate licence for specialised microinsurance providers and still rely on the existing insurance industry to engage in microinsurance. Commercial insurers, who are required to meet the standard prudential requirements, underwrite insurance products while organisations such as MCCOs act as distribution partners.

BOX 4: A new tier of dedicated microinsurance providers

- **Brazil's** Superintendencia de Seguros Privados (SUSEP) introduced a microinsurance license for a microinsurance company, with lower entry and compliance requirements, under the functional approach (SUSEP Circular 439-2012).
- The Insurance Commission (IC) of the **Philippines**, in 2012, introduced lower solvency requirements for companies with 50% of their portfolio in microinsurance (Department of Finance Order N° 15-2012). They also introduced a new tier of mutual risk carriers, the Microinsurance Mutual Benefit Association (MI-MBA) (Insurance Memorandum Circular 9-2006). As of end-2014, 22 MI-MBAs cover more than 4 million policyholders, or 13 million people, including dependants.

28 CIMA (Conference Interafricaine des Marchés d' Assurances) comprises of Benin, Burkina Faso, Cameroon, Central African Republic, Congo, Comoros, Ivory Coast, Gabon, Guinea, Equatorial Guinea, Mali, Niger, Senegal, Chad, and Togo.

2.3.2. Regulatory treatment under the proportionality principle

Proportionate regulatory treatment for microinsurance seeks to balance two objectives:

- **Establish an enabling business environment.** A wide range of regulatory flexibilities for microinsurance products has been introduced over the years to stimulate market development. Such flexibilities are allowed on the basis that they are proportionate to the nature complexity and risk of microinsurance products. They have the dual intention of allowing room for product and business model innovation, while lowering the compliance burden and costs of offering microinsurance. The choice or effectiveness of flexibility introduced depends on the unique nature of the jurisdiction's own regulatory and market landscape, such as the initial regulatory barriers in place, the market structure, behaviour and dynamics of the insurance industry and the sophistication of the target market.
- **Ensure vulnerable consumers are protected.** Specific consumer protection rules for microinsurance business have been put in place to ensure adequate protection for the inclusive insurance customer. These involve requirements on the conduct of business aspects across the entire insurance value chain, from product development, distribution, disclosure and documentation, customer acceptance, premium collection, complaints handling and so forth. These are important given that the inclusive insurance customer is typically more financially vulnerable than customers of traditional insurance while being less familiar with insurance.

The core aspects and types of regulatory treatment that have been implemented by supervisors in the past decade are summed up in Table 2.

Table 2: Core elements of regulatory treatment for Microinsurance

Aspect	Regulatory treatment	Country examples
Risk carrier permitted	• Allow a wider range of entities to underwrite microinsurance via licensing, creating a regime for functional supervision, or formalisation	• The IC Philippines created a new tier of MI-MBA providers in 2006. Subsequently, in 2012, reduced capital requirements were introduced for insurers and brokers with at least 50% of portfolio in microinsurance. • SUSEP also introduced a microinsurance license for a microinsurance company, with lower entry and compliance requirements, under the functional approach.
Product development	• Product standards for microinsurance, either based on principles such as simplicity, or by specifying product features such as policy duration, minimum covers, exclusions, premium payments, simple underwriting and a specific logo • Flexibility in product design such as permission to bundle life and non-life covers	All countries with microinsurance regulations have some form of product requirements. However, approaches and the specific requirements vary between countries depending on country regulations and market context. • Insurance Regulatory and Development Authority (IRDA) India allowed insurers to offer microinsurance products that bundle life and non-life risks. Life insurers offering products bundled with non-life elements must enter into a tie-up with a non-life insurer in order to do so, and vice versa. • SUSEP Brazil requires a minimum one-year term and a seven-day cool-off period.

Aspect	Regulatory treatment	Country examples
Distribution	• Ability to use a wider range of intermediaries, including non-traditional ones • Ability for intermediaries to perform a wider range of roles • Lower registration, training or qualification requirements for specialised microinsurance intermediaries • Stronger oversight of microinsurance distribution channels, including commercialisation agreement approval	Most countries have this feature in their regulations. • Superintendencia de Banca, Seguros y AFP (SBS) Peru introduced wider distribution options in 2007 for the 'microinsurance marketer' (sales clerks, MFIs, savings/credit cooperatives, trade unions, social organisations, money-transfer services, and others). • IC Philippines allows the utilisation of dedicated microinsurance agents (with a lower training requirement) and brokers (with lower capital requirement). • SUSEP Brazil regulates the relationships between the distribution partners and has unrestricted access to agents' shops, as well as any information and documents relating to the commercialisation contract and microinsurance services offered.
Disclosure and documentation	• Permission to use alternative forms of contracts, disclosure or documentation such as electronic policies, shorter documents, graphics, etc. • Minimum requirements for disclosure to consumers • Standard policy formats with a focus on simplicity and clarity	• NIC Ghana introduced a policy summary for microinsurance contracts. • SECP Pakistan's code of consumer protection for microinsurance requires: transparency for premium amounts, exclusions, premium frequency and renewability conditions; fair practices, privacy and fair disclosure; and easily accessible client recourse.
Premium collection	• Ability to use alternative means of payment and transactions • The point at which the premium is considered paid (e.g. when paid to intermediary or when received by insurer) • Grace periods or cooling-off periods	• SBS Peru requires that any communications or premium payments made by the client to intermediaries are considered communicated or paid to the insurer. • The IC Philippines has a 45-day grace period for microinsurance compared to 31 days for traditional insurance.
Claims settlement	• Shorter claims timeline • Ability to use / requirement to accept alternative forms of documentation for verification	• IC Philippines: 10-day deadline on claims decision • SBS Peru: 20-day deadline on claims decision
Complaints handling	• Shorter response or resolution timeline	• In the Philippines, dedicated regulation has also introduced an alternate dispute resolution model to facilitate the handling of customer complaints.
Other regulatory treatment	• Lighter regulatory fee structure • More thorough supervision of the business and providers (for example, customer surveys may prove more informative than reliance on complaints statistics only as in Pakistan)	• IRDA India, SUSEP Brazil, NIC Ghana and SBS Peru apply a different registration process (such as faster approval) for microinsurance products. • The IC Philippines has a lower fee structure and adapted administrative procedures for microinsurance providers. • The IC Philippines and South Africa have set-up a separate department for microinsurance with dedicated staff.
Adapted supervisory tools and techniques	• Specific reporting requirements for microinsurance business • Adapted product registration requirements • Faster product approval	• The IC Philippines, SUSEP Brazil and NIC Ghana require separate reporting on the microinsurance business line. • The IC Philippines developed the SEGURO performance standards for microinsurance providers, which specifies selected ratios and how to calculate them.

2.4.Complementary measures beyond regulation

Separate from the core aspects of regulation and supervision discussed above, many supervisors have also gone beyond their typical roles to provide more far-reaching support to ensure effective regulation and supervision, and generate market development. Supervisors recognise that even a well-designed regulatory framework on its own may not be enough to foster the growth of inclusive insurance markets, as some factors impeding growth may lie beyond the control of the insurance industry or insurance regulation.

Many supervisors have been actively involved in financial consumer education initiatives. This is done either on their own or in partnership with other public and private stakeholders (ministries, other supervisory authorities, insurers, and consumer protection agencies). Supervisors recognise that financial education is imperative as a long-term consumer protection measure. Approaches have ranged from setting requirements on insurers to contribute to financial education campaigns in kind or in cash (Colombia and South Africa), asking for voluntary contributions (Philippines), directly organising and mobilising nationwide education initiatives (Uganda), to developing education materials (Peru).

BOX 5: Supervisors' involvement in financial education

- In **Jamaica,** radio broadcasts promoting financial capability and a better understanding of microinsurance have proved quite effective in terms of creating awareness and sensitivity to opportunities and potential abuses.

- In **Ghana**, radio broadcasts also proved effective, whereas print media promoting financial education has had less impact. Ghana has also administered a survey to mobile insurance clients to gauge customer satisfaction and help identify regulatory infractions. The survey helps inform the supervisor if the sales process is effective and if the clients understand and receive value from the product.

- In **the Philippines**, the implementation of the national road map for financial literacy has been a multi-authority/multimedia approach, with industry and public advocates in all regions, free training materials, a microinsurance month (January) implemented since 2010, and radio airtime and newspaper columns.

The 2015 IAIS-MIN-A2ii Consultative Forum on Consumer Education came up with the following recommendations for insurance supervisors when embarking on a financial consumer education initiatives:

- Engage in public and private efforts in partnership with other public authorities and encourage synergies across policy spheres;
- When requesting contributors' individual involvement in national efforts, include motivation and decision-making;
- Integrate insurance education into a national financial sector effort;
- Link consumer protection and consumer education;
- Be a supervisor who is present where people work and live; and
- Create a provider-neutral branding to help standardise independent advice and awareness campaigns.

To enable the supervisory authority to deal with microinsurance competently and efficiently, many have also adapted the resources, processes and structures within their organisations. This includes specific staff training, changing supervisory processes and organisational structures, such as by setting up a dedicated microinsurance department. Supervisors also set up separate reporting frameworks and dedicated microinsurance data infrastructure. This has allowed supervisors to conduct performance monitoring for the microinsurance business line based on key performance indicators (KPIs) tailored to the peculiarities of microinsurance, which enables more accurate assessments of the growth and quality of microinsurance products and services. Less commonly, some also played a more direct role of joint product development with the industry, or with other authorities in state-led schemes. A notable example is that of the Philippines, where the supervisor jointly developed prototype microinsurance policy contracts with the industry via one of the many Technical Working Groups that they had established.

2.5. Support and collaboration

Insurance supervisors have benefitted from working with a diverse range of stakeholders when developing an enabling regulatory environment. These stakeholders include the industry (both intermediaries as well as risk carriers), academics, donors, technical assistance providers, government ministries and other financial sector authorities (banks and MFIs). Insurance supervisors are increasingly benefiting from peer-to-peer exchanges at the international level. Some supervisors have also benefited from tailor-made or regional technical assistance funded by donors.

Supervisors have increasingly consulted and collaborated with the insurance industry in their jurisdictions when developing inclusive insurance regulations. Many have organised multi-stakeholder collaboration processes such as dialogues and working groups to allow the supervisor and industry to exchange perspectives. This has provided an avenue for the industry to express their views on issues affecting the feasibility of the framework such as industry capacity or arising compliance burden, allowing supervisors to better anticipate unintended adverse effects in designing the regulatory frameworks. A pioneer in this regard has been the Philippines, which has established technical working groups with the industry on numerous topics. Another jurisdiction is Peru, where the supervisor took deliberate steps to deepen consultation with the industry when revising their microinsurance regulations after having drawn on the lessons learnt from the first and second issuance of the regulations.

Many supervisors have been pursuing coordination and collaboration with other authorities. This has been necessary given the extent of informality that exists and the increasing diversity of players and distribution models in the microinsurance market such as MNOs, MFIs, mutual, retailers, utility companies and so on. As these stakeholders are not under the purview of the insurance supervisor, yet they engage in insurance, a coordinated approach of the authorities in charge is imperative. Policy agendas that drive microinsurance often go beyond insurance development – such as agricultural policy or general economic development, therefore involving various government ministries and authorities such as the central bank or the cooperative authority. As such, supervisors have entered into various working arrangements, among which are participating in policy development, for example a financial inclusion or financial education strategy. Also, supervisory coordination is important to ensure that all parties in the microinsurance value chain are adequately supervised and regulatory arbitrage is minimised. Approaches include the technical working groups mentioned, joint trainings and workshops, forming inter-agency high-level committees and entering into memoranda of understanding with other authorities to enable cooperation to take place such as in conducting joint approvals, consultations and policy development.

International development agencies and global partnerships have provided crucial support. Global or regional development banks and bilateral development agencies have provided regional or tailor-made technical assistance to supervisors, to support them in activities such as developing regulatory road maps, staff training and establishing performance monitoring frameworks. In addition, the A2ii supported at least 20 jurisdictions in conducting a thorough market diagnosis identifying supply, demand and regulatory barriers prior to developing or revising their microinsurance regulations. This helped create momentum for subsequent policy or regulatory development – for example the development of a policy for microinsurance market development, a dedicated regulatory framework for microinsurance, or the revision of regulations. Furthermore, through participation in global and regional events such as those organised by the A2ii, insurance supervisors are increasingly contributing to and learning from peer-to-peer exchanges.

3. Takeaways from the Past Decade

Proportionate regulation and supervision has been key to the growth of microinsurance markets around the globe. The central question confronting supervisors is consistent – how best to balance between offering a facilitative business environment, vis-à-vis ensuring that the inclusive customer is adequately protected? While there is no one-size-fits-all answer, implementation experience over the past decade has highlighted a multitude of lessons. A number of jurisdictions have revised their regulations – some several times. These learning experiences can guide the future development of inclusive insurance regulations, especially for supervisors who are new to the process, and will hopefully enable more excluded and low-income individuals to gain access to good-quality and affordable insurance.

Over the past decade, it has become evident that it is highly critical for supervisors to:

- **Understand the unique market context of a jurisdiction prior to developing the microinsurance regulatory framework.** This shapes how the industry responds to regulations, thus determining whether the regulations will work or not. Essentially, regulations should be designed such that the industry responds and behaves in a manner that is aligned with the supervisor's policy objectives.

- **Take into account the broader legal and regulatory context within which microinsurance regulations are issued.** This could be anything from insurance, banking, cooperatives, payments system, anti-money laundering, to e-commerce laws and telecommunication regulations. Microinsurance regulations should complement existing legal and regulatory frameworks in a coherent and streamlined manner. Confusion or conflict may create additional compliance costs for the industry, or opportunities for regulatory arbitrage.

- **Pre-empt and avoid unintended consequences that might arise from a microinsurance regulatory framework.** For example, India's approach of setting a minimum quota on microinsurance provision may appear to be a quick-fix solution, but may lead to the industry fulfilling quotas without a sound underlying business approach or without genuinely meeting the needs of low-income customers. Alternatively, unsuitable microinsurance definitions could limit product innovation, distort competition and provide opportunities for regulatory arbitrage. In Peru, the industry found the initial microinsurance definition too narrow and difficult to comply with in practice. This drove them to offer products under the mass insurance regulatory framework instead, which had different consumer protection requirements.

- **Coordinate and cooperate with other authorities that are involved in supervising the provision or distribution of insurance and insurance-related products.** Strategic coordination can be from various aspects. One is joint supervision. If an intermediary falls outside the insurance supervisor's purview, supervisors should enter into an arrangement with the supervisor of the intermediary to ensure adequate supervision or exchange of information. Another example is joint product or scheme development. For state-led inclusive insurance schemes, the supervisor's early involvement can help avoid conflicts in regulations, reduce market distortions, encourage fair competition, and enhance consumer protection and value. For example, in a crop insurance scheme, the supervisor could help ensure that the scheme is implemented in line with microinsurance principles, enhance consumer value by embedding life or health cover into the programme, or build financial literacy and consumer confidence.

- **Adopt a structured, evidence-based and properly sequenced process to developing and implementing the microinsurance regulatory framework.** Supervisors should conduct a robust diagnosis considering all pertinent factors prior to the implementation of a framework. This should lead to a concrete plan, perhaps in the form of a regulatory roadmap that is developed based on consultation with key stakeholders such as the industry and other authorities. It is important that supervisors recognise that not all aspects of the regulatory environment can be implemented at once. Hence, a potential strategy could be to identify quick-win areas within the existing legal framework. Depending on the legislative and regulatory processes in the jurisdiction, changing the law may take a long time. Rather than reforming an entire law, it may be more feasible instead to publish a commissioner's memorandum first, for example. In addition, there are certain things that can be done without a full-fledged regulatory framework for inclusive insurance in place – for example, consumer protection requirements

BOX 6: Potential areas for interagency cooperation

Good examples of interagency cooperation are already evident in a number of countries. Insurance supervisors should consider possible synergies with government ministries, central banks, telecommunication authorities, and agencies overseeing utilities and consumer protection. Various practices observed so far:

- Agreement to exchange information, for example with the telecommunications supervisor on mobile insurance (Jamaica)
- Entering into a memorandum of understanding, for example with the telecommunications supervisor to approve distribution agreements between the MNO and insurer **(Ghana)**
- Jointly developing and implementing strategies, for example on insurance education **(Colombia)**
- Issuing a joint circular between various authorities on distribution, formalisation and other areas of common interest **(the Philippines)**
- Setting up a task force comprised of several authorities to tackle shared concerns such as anti-money laundering (AML), informal provision or regulatory arbitrage **(the Philippines)**

that can be issued pursuant to the overarching insurance law. Finally, there should be ongoing monitoring of performance based on carefully selected KPIs. Ideally, the implementation of a regulatory framework involves constant performance assessments with continuous adjustments of provisions as needed.

- **Apply a test-and-learn approach in developing and implementing microinsurance regulations, while remaining proactive and flexible.** Where microinsurance market development is concerned, traditional regulatory instruments and practices have their limitations – a clear instance being the supervision of microinsurance intermediaries and providers such as MNOs or some cooperatives and community-based organisations, which are not common in traditional markets. There is a need to understand the rapidly changing insurance market dynamics, and respond appropriately with regulatory solutions. In this regard, facilitating pilots[29] or regular dialogues with stakeholders to collect feedback and jointly work on new solutions are increasingly important. Such stakeholders could range from government or other supervisory authorities to commercial insurers and community-based organisations, including those in rural areas.

- **Undertake national and regional capacity-building in collaboration with peer-supervisors from other countries.** Supervisory capacity-building focused on specific inclusive insurance topics is not widely available in many regions. Training, conferences and dialogues organised by a multitude of international organisations such as the IAIS, A2ii, regional supervisory associations[30], International Labour Organization (ILO), The Centre for Financial Regulation and Inclusion (Cenfri), regional development banks (Asian Development Bank, Inter-American Development Bank, African Development Bank), the Toronto Centre, CGAP, World Bank First Initiative, the Munich Re Foundation, MIN, and several programmes supported by the Federal Ministry for Economic Cooperation and Development (BMZ) of Germany (Making Finance Work for Africa, RFPI Asia and its Mutual Exchange Forum for Inclusive Insurance (MEFIN) framework, and the Ghana-North Rhine-Westphalia (NRW): Cooperation for Sustainable Development project) have provided many opportunities to build supervisory staff competence, via training and peer-to-peer exchanges. National supervisors have often hosted and actively contributed to these sessions. Moving forward, it is important that supervisors continue to build on these relationships.

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29 See Section 2: Licensing pilots in the Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets (IAIS, 2012).

30 Asian Forum of Insurance Regulators (AFIR), Asociación de Supervisores de Seguros de América Latina (ASSAL), East African Association of Insurance Supervisory Authorities (EAISA), The Committee of Insurance, Securities and Non-banking Financial Authorities (CISNA), The West African Insurance Supervisors Association (WAISA), Caribbean Association of Insurance Regulators (CAIR), Arab Forum of Insurance Regulatory Commissions (AFIRC), South Asian Association for Regional Cooperation (SAARC), Association of Southeast Asian Nations (ASEAN).

4. Looking Ahead to Remaining and Potential Challenges

While supervisors have made great strides in promoting inclusive insurance, a number of key challenges remain, and new ones are emerging. Where measures have already been undertaken, supervisors may need to rethink or refine these measures. At the same time, inclusive insurance markets are changing considerably as a result of new trends in mass distribution, digital technology and product innovation. These trends will raise regulatory concerns for insurance supervisors. It is crucial that supervisors proactively monitor and understand the implications of these trends.

4.1. Remaining challenges

4.1.1. Formalisation

Formalisation, or in other words, protecting clients of informal microinsurance providers, remains a challenge in some countries. Informal insurance providers are still widespread, and insurance supervisors are often unable to gauge either the depth or the breadth of informal systems in their jurisdiction, or the potential risk to consumers. Informal insurance is typically provided by entities such as MFIs, SACCOs or other cooperatives, funeral homes or retailers. It has numerous manifestations, including: (i) in-house insurance or risk-pooling schemes for clients or members; (ii) group insurance, where the entity is the master policyholder on behalf of its clients or members, and effectively carries out the functions of an intermediary but is not licensed as such; (iii) government schemes or pilot projects for health, agricultural, or disaster insurance that are either unlicensed or regulated to a lesser extent.

The magnitude of informality is unknown, and seems to vastly differ across regions and countries. The Global Landscape Study 2007 identified 9.8 million policyholders with NGO informal coverage in the 100 poorest countries researched. However, the Asia Landscape Study 2013 reported that approximately 15-20 million people are still covered by informal insurance schemes in this region alone. Reliable data on such schemes is not available by country, regionally or globally. It is known however that some countries have a certain magnitude of informality i.e. running in-house and insurance-like schemes, such as South Africa with the funeral parlours, Nepal with the in-house insurance of SACCOs, Ghana with the Credit Unions or Paraguay with the solidarity schemes of SACCOs.

> *In formalisation, the level of risks determines the intensity of supervision. Transition times are important for those who formalise and for the supervisor.*

Countries with a formalisation strategy already on hand are the exception, rather than the rule, and even fewer have successfully implemented these designs. Deterrents to address the challenge of informality include lack of supervisory capacity, lack of willingness from other authorities, or resistance to formalisation from the parties driving the pilot schemes or the informal providers themselves. Supervisors should seek acceptable ways to reconcile the various national policy development objectives while working toward enforcing formalisation. In the Philippines, formalisation processes have proved successful, and South Africa has plans under way. However, at the Washington Symposium in 2014, many participants clearly expressed the need for more concrete guidance on how to approach formalisation more effectively (see Washington Symposium Input 1)[31].

31 The IAIS Application Paper on *Regulating and Supervising Inclusive Insurance Markets* (2012) provides more detail regarding supervisory objectives and the varied formalisation challenges in different country situations.

WASHINGTON SYMPOSIUM INPUT 1: FORMALISATION WORKING GROUP 1

"The topic raises a lot of challenges, but we don't know enough about possible pathways".

- Supervisors need more data on the magnitude of informality, but how can that be done? Strong affinity groups manage many of these schemes, and many are not keen to formalise.
- Informal index-insurance pilots in particular need to be integrated.
- The supervisor's capacity is an important determinant in integrating such pilots and informal providers.
- Reasonable transition times also matter for the informal managers and for supervisors.
- Options for formalisation include group policies and issuing agent licenses.
- Pathways to formalisation vary greatly for each country and what works for one may not work as well for others.

BOX 7: How have supervisors dealt with formalisation?

In the Philippines, informal insurance providers have five different pathways to formalising as a microinsurance provider:

- enter into a partnership with a formal insurer in the form of a group policy;
- become an MI-MBA;
- become a broker or microinsurance broker with a lower capital requirement;
- become an agent or microinsurance agent; or
- become a licensed commercial insurer or an insurance cooperative, where, for the insurer, a lower capital requirement applies if more than 50% of the portfolio is in microinsurance.

This large-scale exercise has been done with the crucial support of other supervisory authorities. In 2010, the IC, the Cooperative Development Authority and the Security and Exchange Commission issued a joint circular promoting formalisation which has significantly helped. Of the above options, three seem to have worked especially well: group policies, becoming a dedicated MI broker, and becoming an MI-MBA.

Source: Regulatory Impact Assessment Microinsurance Philippines, GIZ RFPI 2015

4.1.2. Data gathering and analysis

> *"We need to understand client behaviour after the purchase!"*

Many supervisors have only basic or no separate data collection for microinsurance. Those who do collect such data may not be collecting the full range or sufficient granularity of information required for important assessments such as client value, market growth indicators, financial soundness indicators and business performance. In other cases, the data collected is not analysed to provide meaningful conclusions. With the increasing support of technology in today's business environment, there are a multitude of methods to collect data whether via onsite or offsite means. For example, subject to data protection, data could be automatically captured through platforms such as transaction platforms of MNOs. Good collection and analysis of microinsurance data, both qualitative and quantitative, is important in four aspects:

- **Ongoing supervisory review and reporting.** ICP 9 sets out how the supervisor should examine an insurer's business, including its condition, risk profile, conduct, corporate governance and its compliance with relevant legislation and supervisory requirements. This can be applied to microinsurance in a proportionate manner by developing a separate, simplified reporting framework that captures essential information on financial soundness, market conduct and client value.

> *Gathering and analysing this information is an important part of ensuring that customers are protected and that insurance markets are stable.*

- **Aid the design of effective and appropriate policy responses.** For example, performance monitoring frameworks or methodologies for inclusive insurance (e.g. based on the SUAVE criteria for good products)[32] include certain core indicators for client value assessments. However much of this data is not readily available, and reliable evaluations on whether consumers are truly benefitting from microinsurance are difficult without sustained access to such information.

- **Measure regulatory effectiveness based on a standard methodology.** This should enable supervisors to judge whether or not investments in microinsurance regulation have generated industry growth, improved uptake and improved the quality of products and services over time. To date, such information is still extremely limited. Without such knowledge, supervisors may repeat the same mistakes, make new mistakes or misallocate their limited resources.

- **Pave the way for future evolutions in regulatory approaches.** Once microinsurance regulatory frameworks have been implemented, and some level of success in reaching out to low-income consumers has been achieved, supervisors may wish to target specific, more excluded or more vulnerable subgroups or demographics such as women, the elderly, the urban poor, migrants or informal workers. However, without the appropriate data on gaps in insurance penetration, these approaches will be difficult to implement.

4.1.3. Responding to innovations

Innovations and technical advances are happening faster than ever, leading to new and little-understood types of risks. The speed and scale of growth, especially among distribution channels, have challenged the low-risk assumptions previously associated with inclusive insurance products, and also supervisors' understanding of the underlying business partnerships. Supervisors should keep current with such innovations and maintain a flexible regulatory approach by remaining open to make timely changes to their supervisory approach as they go along. Staff training and peer exchanges for dealing with these new types of offerings are essential. Two potential areas to which supervisors should pay attention are as follows:

- **Innovations in the distribution channels and the nature of business relationships.** Supervisors should be mindful of potential power imbalances in aggregator-based distribution models, and seek to ensure the sales staff that interacts with the customer are adequately trained. Sound, clear service agreements for the insurer-distributer partnerships, as well as effective controls agreed to by the regulatory authorities involved (e.g. telecom regulators for all accords with MNOs), will help protect the consumer and anticipate scenarios such as the dissolution of the business relationship and suspension of products and services.

- **Innovations driven by other policy agendas**, such as insurance schemes rolled out by government departments seeking to protect vulnerable populations against adverse weather events, food shortages or against health-related risks. Given that the target group is the same, and as such these insurance schemes would operate in the same market, it is important to ensure that these schemes are subject to the same prudential and consumer protection requirements.

32 Indicators of quality microinsurance developed by the Microinsurance Centre: SUAVE stands for Simple, Understood, Accesible, Valuable and Efficient

4.1.4. Sustainability of state-led programmes

The long-term self-sustainability of inclusive insurance schemes initially set up with government subsidies remains unclear. For high-risk sectors and regions, state subsidies have provided an opportunity to develop and grow the market while providing large-scale access to insurance for the low-income, at least in the short or medium term[33]. Many of these schemes would find it difficult to achieve scale without government support, due to the high cost of providing this type of insurance. The reliance on government support, however, can lead to several challenges for the insurance supervisor:

- **Long-term sustainability.** Government spending priorities or policy development strategies may change over time. It is important that pilots are implemented with the long-term goal of transitioning successful pilots into sustainable business. It has been observed in some cases that when a subsidised index insurance pilot ends, another pilot is launched, rather than attempts being made to transition the original programme into a sustainable business.
- **Consumer protection.** Pilot schemes are sometimes driven by a government authority without the insurance supervisor's involvement. Supervisors might find it difficult, if not impossible, to respond to these models as part of their supervisory mandate. As a result, these pilots are subject to different standards than those that apply to insurance activities and may lack the same focus on financial education and consumer protection. If subsidised pilot schemes fail or are abruptly withdrawn but consumers are not offered the necessary redress or resolution, or transitioned to another sustainable programme, this may inadvertently damage their trust in other privately-offered insurance products.
- **Unfair competition.** Subsidised or state-led schemes may create a parallel market outside the insurance regulatory framework or create an uneven playing field for private insurers that want to enter this market but cannot compete against the subsidies.

As such, supervisors must continue to push for coordination and cooperation with other public authorities that are involved in the provision or distribution of such insurance schemes. It is important that these schemes are developed with a long-term view of ensuring that they are sustainable and ultimately leave a positive impact, and complement rather than conflict with inclusive insurance market development.

4.2. Recent trends and potential challenges

Innovations in the inclusive insurance market have had a significant impact on the low-income market. Chapter 1 explored how the emergence of community-based and large-scale distribution channels, in parallel with technological advancements, significantly expanded the outreach of microinsurance over the past decade. Regulatory frameworks in many countries have enabled or supported many of these market changes. However, new business models and market practices continue to evolve at a rapid pace. These trends will continue to significantly impact the market in the coming years and in doing so, bring new risks to the insurance industry and consumer. In inclusive insurance markets, anticipating and managing these risks is particularly challenging for the supervisor, because often the business models depart significantly from traditional insurance markets. At the same time, inclusive customers are particularly vulnerable, and consumer protection is all the more critical. As such, it is important that supervisors continue to pay attention to these emerging trends, and be ready to address them from a regulatory point of view. The following section highlights two recent trends that have been taking shape.

33 Some 35% of microinsurance initiatives that achieved scale were supported in some way by the state. government played a particularly significant role in agriculture and health microinsurance (Cenfri and ILO, 2014).

TREND 1 - Increasing dominance of large-scale aggregators in the microinsurance value chain

A distinctive feature of microinsurance business models has been the fragmentation or recalibration of the value chain. Unlike traditional insurance business models, which largely comprise the insurer and brokers or agents, microinsurance business models typically include more intermediaries playing a wide range of roles. For example, distribution channels such as an MNO or e-payment provider actively perform supplemental functions such as product development and premium collection. Globally-active TSPs – many times acting under a broker license – like BIMA or MicroEnsure play a dominant role in an increasing number of markets, performing functions traditionally handled by insurers, brokers, or agents such as underwriting, back-office data processing, claims management, development of distribution model and product development.

> *Embedded or loyalty products can show people the benefits of insurance. To avoid insurance as a cash-cow for insurers, the supervisor has to step in. Also, people need to know where to claim and where to get recourse.*

In recent years, mass client aggregators such as retailers and MNOs have become particularly prominent in insurance value chains. Familiar terms include mobile insurance (when transactions related to the insurance product are primarily conducted through the mobile phone), mass insurance (a particular term referring to insurance sold via mass aggregators) or digitally distributed insurance[34]. These arrangements have a number of key benefits, the main one being large-scale, cost-efficient outreach to massive numbers of unserved or underserved including low-income populations. Non-financial client aggregators like MNOs, retail chains or utility companies hold large client bases, which automatically guarantees a critical mass of clients for the insurer. They also have an interest to encourage client uptake of insurance products as a means of retaining customer loyalty. By having the intermediary perform or automate certain functions in the microinsurance value chain, the insurer is in many cases able to cut down significantly on expenses.

At the same time, such developments raise or accentuate a number of supervisory concerns. A non-financial aggregator's primary interest is usually to reduce churn and generate revenue from its core product offering rather than ensure the client gets value from the accompanying insurance offering. Due to the nature of large-scale client aggregators and the mass distribution business model, it is common that the insurer does not exert much control over the relationship between the aggregator and the client. In many cases they are not subject to traditional intermediary training or consumer protection regulations, for example, if a retail chain does not hold an agent licence. As such, they may not have the capacity or put in sufficient effort to ensure that insurance products for low-income households are designed and serviced well, increasing the risk of reduced customer value and inclusive customers being sold inappropriate products. There has been evidence in some cases that such schemes have rather low claims ratios, which may indicate that customers either do not know they are insured, or how to make claims. The lack of control of the insurer over the aggregator also means that it is difficult to monitor transactions and other aspects such as client satisfaction. Against this environment of burgeoning innovation, the supervisor needs to consider the following:

- **Regulating microinsurance intermediaries in a manner that ensures that the insurer retains oversight and accountability over intermediaries and outsourced functions is a challenge.**
    - The aggregator may be under the jurisdiction of another authority such as telecommunications, payment systems, or a government bureau. This may impede the supervisor from accessing the information needed to ensure appropriate oversight over the activities of the intermediary.
    - In the case of TSPs, the intermediary may not even be regulated, or they may be holding a traditional

34 There have been a number of recent publications exploring mass mobile insurance in recent years. See, for example: (i) The Emerging Global Landscape of Mobile Microinsurance (CGAP, 2014); (ii) Materials from the CIMA-A2ii Workshop on mobile insurance regulation, held on 16-17 May 2016, Abidjan Ivory Coast (https://a2ii.org/en/event/cima-a2ii-workshop-mobile-insurance-regulation) (iii) Can the digitalisation of microinsurance make all the difference? Assessing the growth potential of digital microinsurance. (Leach, Tappendorf and Ncube , 2015); (iv) Responsible Mobile Insurance (Wiedmaier-Pfister & Leach, 2015).

intermediary licence and carrying out functions beyond what is currently allowable in their licence. This leads to the issue of whether, or how, TSPs should be licensed.

- The higher number of parties involved in the value chain may also mean the partnership may be more likely to fail or be disrupted. This is not only a prudential risk, but the large scale of mass outreach also means that this withdrawal will directly affect a significant number of people. The multiple parties involved may lead to ambiguity on who is responsible for redress.

It is difficult to monitor whether customers are being treated fairly and transparently.

- Aggregator sales staff may have limited capacity to service clients well. Non-insurance sales teams are generally less informed than insurer and traditional insurance intermediary personnel, who are typically subject to rigorous training and qualification requirements. They are often found to have a high turnover rate, for example the staff of supermarkets, call centres or mobile phone agents, which further strains the cost of training. Monitoring, such as supervising call centre performance, has also emerged as a challenge.
- Where distance selling methods are used, such as in mobile insurance, consumers may not receive sufficient disclosure and transparency. 'High-touch' interactions are minimal in mass aggregator models. Call centres or digital communication are often adopted as a substitute for costly face-to-face explanations. This is an advantage cost-wise, but may lead to the outcome that consumers do not fully understand the product. In some cases the insured may not even be aware of the coverage, and is therefore unable to lodge a claim should the risk event occur.
- Some aggregators have been found to overcharge insurers for access to their client base. As these costs are passed on to the consumer this reduces client value. Most channels in LAC currently seek commissions at a rate of 10-30% of premiums. However, close to one quarter of channels studied were found to charge up to 60%. Incidentally, the increasing prominence of mass aggregators in LAC has been observed to correlate with a decreasing claims ratio[35]. Coupled with the nature of inclusive consumers who often do not understand insurance, this further reduces client value.

> *Consumers don't understand what a complaint is. We have 29 new microinsurance products and hardly a complaint.*

> *Microinsurance requires personal touch! We need diversity of distribution channels but not focus too much on MNOs.*

35 Data from the Landscape Studies.

BOX 8: Mass insurance in inclusive insurance regulations

An interesting regulatory development in the wider sphere of inclusive insurance has been the increasing prominence of 'mass insurance' regulatory frameworks in the LAC region. The IAIS definition of microinsurance was developed before the broader definition of inclusive insurance. However, mass insurance regulations had in fact been present in some countries in LAC many years before microinsurance regulations. As microinsurance regulations become more common, discussions on mass insurance are now also regaining momentum. Specifically, this has led to the question of how supervisors should deal with mass insurance and microinsurance in parallel, and more broadly, how to deal with inclusive insurance beyond the scope of microinsurance. The discussion on mass insurance vis-à-vis microinsurance fits in very well with the debate on the interaction between microinsurance and inclusive insurance, because as we will see, mass insurance is a strategic regulatory approach that has also been used to enhance access to insurance.

Mass insurance is commonly described in regulations as follows:

- Objective is to promote access to insurance or increase insurance penetration through the use of alternative distribution channels
- Defined as products that are universal, standardised and simple. Generally not targeted at a specific segment
- Often subject to a differentiated regulatory requirements from microinsurance or traditional insurance
- Can be distributed through a specified range of distribution channels, commonly identified by terms such as "mass channels" and "mass marketers". Typically, these channels comprise a wider range, and are subject to simpler intermediary licensing, training or qualification requirements, than traditional insurance distribution channels.
- Market conduct provisions are integrated within the regulatory frameworks
- 13 out of 16 LAC countries currently have a mass insurance regulatory framework or have recognised mass insurance in their insurance regulations[36]. Out of these, five have regulations on both mass insurance and microinsurance[37].

Differences and interactions between microinsurance and mass insurance

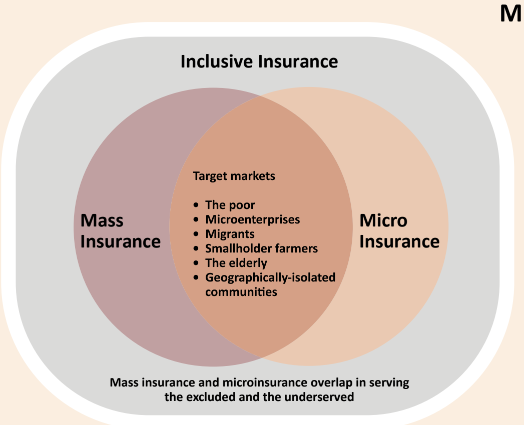

Diagram 2:
Interactions between mass insurance and microinsurance in the context of inclusive insurance

Microinsurance and mass insurance are strategic regulatory approaches that were developed from two different but complementary perspectives. Microinsurance was premised on defining the low-income segment as the target market, and subsequently extrapolating their product, distribution channel and consumer protection needs. In contrast, mass insurance was premised on unlocking channels and significantly widening outreach without any particular target consumer profile in mind.

Both microinsurance and mass insurance regulations enable wider distribution options. The need to widen distribution options arose because, as in many countries, distribution channels that typically had good outreach to the mass market, underserved or unserved populations were not allowed to offer insurance. Traditionally, most

36 Bolivia, Brazil, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Peru and Puerto Rico.
37 Brazil, Mexico, Nicaragua, Panama, and Peru.

countries set explicit requirements on brokers and agents, while being silent on other channels. The licensing and training requirements on brokers and agents are often cost-prohibitive for alternative distribution channels which operate on a completely different scale and manpower structure. This created the need to unlock more distribution channels for insurers. Bancassurance[38] can be seen as the first major development in this direction. The introduction of more distribution options in mass insurance and microinsurance regulations continue to address this need.

In countries where microinsurance and mass insurance coexist, both microinsurance and mass insurance products can be accessed and taken up by the low-income. For microinsurance, there is a clear imperative that it should be designed with the low-income segment in mind. For mass insurance, its large-scale distribution and universality of the target segment enables access for the low-income. In terms of client value, there is no clear comparison. Although mass insurance was not premised on meeting low-income household needs, it has been found in some cases to provide similar or better client value than microinsurance.

Given that microinsurance targets low-income customers who are typically more vulnerable and less finally aware, microinsurance regulations are often more stringent than mass insurance regulations in terms of consumer protection. Indeed, countries that have introduced both regulations have emphasised that microinsurance products are different because: (i) these are aimed at a specific segment of the population, and (ii) microinsurance consumers are particularly vulnerable. A key cornerstone of microinsurance regulations therefore is the introduction of market conduct provisions that aim to mitigate the consumer's vulnerability, such as claims pay-out deadlines and limits on exclusions.

The existence of parallel regulatory frameworks could lead to consumer protection issues and regulatory arbitrage. Having multiple regulatory frameworks under which insurers can offer products is positive in some respects, as it gives insurers more options to reach the unserved and underserved. However, if market conduct provisions differ between regulatory frameworks, the poor may end up purchasing products under regimes that have different consumer protection provisions, creating confusion and leaving them unsure of their rights. In addition, it has been observed in some cases that insurers offer products under the mass insurance rather than the microinsurance regulatory framework because it is more costly for them to comply with the additional market conduct provisions of microinsurance.

Emerging lessons

It is useful to issue specific regulations on both microinsurance and mass insurance?
It is possible to argue that if mass insurance products meet certain preconditions i.e. (i) offer good client value; (ii) effectively protect consumers; and (iii) are accessible to the low-income, specific regulations on microinsurance may not be needed, precisely because mass insurance would already have met the objective of inclusive insurance. Even if some preconditions are not met, however, there may be other policy options. For example, the supervisor could enhance the market conduct provisions of the mass insurance regulatory framework itself e.g. refine definition of mass insurance products, strengthen consumer protection, undertake industry capacity-building, or monitor product quality, instead of issuing separate regulations on microinsurance. However, if there are deeper structural issues impeding access, microinsurance regulations may be needed.

If two parallel frameworks exist, it is important to be clear on where the two regulatory frameworks should be integrated or demarcated. The supervisor should ensure that the industry has sufficient incentive to offer whichever product is intended to be inclusive; for example if the supervisor wishes to increase provision of microinsurance, microinsurance could be given access to additional channels that are not permitted under mass insurance regulations. However, a more optimal solution could well be to develop one single, integrated regulatory framework for inclusive insurance which balances both adequate consumer protection and commercial feasibility. To date, however, there has been little experience with regulatory approaches that successfully integrates these concepts.

38 Bancassurance is also extremely relevant for the inclusive insurance agenda.

TREND 2 - Accelerating use of digital technology

> *Industry is faster than regulation. Every day, the industry submits new products… bill payment providers want to act as distributers, but our jurisdiction requires a registered entity to market insurance. Caution needs to be taken not to over-regulate before private market has moved.*

For a long time, technological advancements have been transforming inclusive insurance. Mobile phones, smart cards, animal tagging, satellite technology and digital platforms are amongst the most prominently used technologies. What is new is the pace, extent and complexity in which new innovations are entering, or 'disrupting' the market thanks to advancements in big data[39] and financial technology or 'Fintech', giving rise to the insurance equivalent of 'Insurtech'[40]. In many ways this is good for inclusive insurance consumers – these changes have allowed for leapfrogging of expensive technology and mass outreach, and will pave the way to more targeted product development and selling, and entirely new distribution avenues. However, many of these innovations are happening in a way that is hard to predict. For instance, there have been increasing concerns that big data could also lead to exclusion. As data analytics enable further refinements in the way large risk pools are assessed, it may create new, smaller pools of idiosyncratic risks that are either considered uninsurable, or are charged higher premiums such that the consumer cannot afford the insurance any longer. Insurers, especially in developing markets, are themselves still learning to embrace or cope with the new technologies. They do not always understand how to manage the risk, which in turn makes supervisors less able to rely on industry expertise to address the potential risks to consumers.

39 Big data refers to extremely large data sets that may be analysed computationally to reveal patterns, trends, and associations, especially relating to human behaviour and interactions. Big data comes from sources such as mobile devices, social networks, internet-connected sensors placed on cars, buildings, and bridges, or weather station or remote-sensing devices.

40 See, for example: (i) *Global FinTech Survey: Opportunities await: How InsurTech is reshaping insurance (PWC, 2016); (ii) Innovations in the Growing Microinsurance (Hutta, 2015); (iii) Life Insurance in The Digital Age: fundamental transformation ahead (Swiss Re, 2015)*

Table 3: The role of technology in the microinsurance value chain

Aspect	How technology is used
Product development	• Harnessing of big data, which enables client risk profile to be analysed and priced more accurately
Distribution	• Selling via digital interface rather than having to employ and train staff • Call centres support in replacement of the direct client relationship
Disclosure and documentation	• Presenting and disclosing information to the consumer on the mobile phone and internet platforms • E-documents (contracts, terms, claims documents) replacing printed documents
Customer acceptance	• Leveraging on e-money transaction platforms for client identification and verification • Policy activation via a call centre or hotline • Sending of renewal reminders via SMS to clients • Issuance of e-policies and using of e-signatures
Premium collection	• Airtime deduction as payment method • Transacting via e-money platforms
Claims settlement	• Transacting via e-money platforms • Pre-processing of claims
Other value-added services	• Back office administration e.g. managing client databases

The myriad of ways technology can be employed has led to a multitude of innovative distribution partnerships, thus creating additional challenges for supervisors. Mobile phones are currently the most common digital tool. It is used for a variety of functions such as policy activation, for sending renewal reminders to clients, or for a hotline providing health advice. Key issues for supervisors in this business model include: adequacy of pricing strategies; fairness and transparency for the client; AML and fraud risks; safeguarding client funds; implementing effective recourse options; and ensuring data privacy. On a broader industry level, it may also impact market competition – large insurers with more experience, data and resources to establish new technological platforms to have a competitive advantage. Smaller players or MCCO providers will have a harder time affording the start-up costs, thus losing out on the benefits of such technological advances. From the point of view of the consumer, any potential failures could impede clients from understanding and really using their insurance, adversely affecting positive market discovery and undermining the already fragile trust between the customer and insurance provider.

BOX 9: The growth of mobile microinsurance

As of June 2015, the mobile insurance industry shows 120 live services in 33 emerging markets. The majority led by MNOs. Products are increasingly diversifying beyond life insurance, with two-thirds of new services (out of which ten were launched in 2015) offering non-life products. By June 2015, 31 million policies had been issued. Eight services have more than one million policies, of which 88% is at least two years old. Among the three commercial models i.e. loyalty (customers to spend a certain amount of airtime or keep a certain balance in their mobile money account to qualify for insurance), premium (customers pay a premium), or freemium (combination of the two), there is a potential shift towards more premium commercial models. Of the new services, only 29% adopted a loyalty-based model. The most prominent mobile insurance providers BIMA and MicroEnsure are involved in offering one-third of all 120 mobile insurance services, which observed a 35% increase in the number of paid customers in 2015. Some jurisdictions have plans to introduce some form of regulations addressing mobile microinsurance.

Source: GSMA 2015

"For this new client segment, we need to ask: How do we enable them to see the benefits of insurance?"

"The assumption that the insurer is the strongest player is not true anymore."

WASHINGTON SYMPOSIUM INPUT 2 - EXPERT SYMPOSIUM 2

As we move forward, what are 10 key policy questions confronting supervisors?

- What are the essential supervisory tools, and which existing ones need to be adapted?
- How can supervisors keep current with market innovations, such as the impact of big data, to ensure supervisory staff understand the new products being developed?
- How can supervisors deal with the power imbalance in the distribution chain, where the insurer has little control over the client relationship and is not directly involved with clients?
- What is the best way to protect first-time buyers dealing with the risks posed by ever-more complex products?
- How can proportionality in training, controls and other requirements be applied to intermediaries, especially new types of intermediaries?
- Which is better: investments in consumer financial education or training for intermediaries and sales staff?
- How best can supervisors coordinate with other supervisory authorities and government departments to streamline approaches, and avoid duplications and gaps in supervision?
- Can competition laws help limit the high fees aggregators charge for access to their client portfolios?
- How should the mass insurance market be regulated alongside microinsurance?
- How best to approach formalisation challenges in terms of creating a separate tier of providers, defining transition times, or enforcing formalisation?

Washington Symposium, December 2014

5. Going forward

Insurance supervisors seeking to enable inclusive insurance in their jurisdictions are increasingly adopting a proactive approach to regulating microinsurance. Supervisors have been recognising that traditional regulatory assumptions and constructs no longer apply, or do not apply in the same ways they did in the early years of microinsurance development. The increasing prominence of index insurance or mass insurance within the sphere of inclusive insurance regulation is a clear example of this. Supervisors now face a more challenging task requiring active development and pre-emptive measures rather than simply adjusting product rules according to static client profiles or easing distribution rules for non-traditional channels. Moreover, rapid turnaround times in evaluating and responding to market trends and forces are required.

WASHINGTON SYMPOSIUM INPUT 3 - PARTICIPANT SURVEY 3

In what topics is supervisory capacity-building most needed?

Prior to the Symposium, A2ii asked participants to complete a survey to express their principal concerns, and suggestions for resolving these issues moving forward. Respondents included supervisors, development experts and donors, over half of which have more than ten years of experience in their various specialisations. Respondents highlighted challenges faced, recommended solutions and also where supervisory capacity building was most needed. In response to the latter, the following topics were highlighted:

- Understanding which and how industry incentives work
- How to ensure subsidies are sustainable
- Risks of engaging non-financial intermediaries in aggregator partnerships
- Role of community organisations
- Cost-efficient financial education strategies
- Regulation of mass market channels
- Alternative dispute-resolution approaches
- Managing systemic impact when a large scheme collapses

Washington Symposium, December 2014

The greater emphasis on market development based on a forward-looking, test-and-learn approach, has led to the need for increased support for supervisors. While the guidance as well as knowledge generation and dissemination support provided by the IAIS and the A2ii continues to be of value, times of rapid change call for exploration of new and different forms of assistance from which supervisors can benefit. As a whole, the Symposium highlighted the need for:

- Additional **guidance** on designing and implementing a proportionate supervisory approach for inclusive insurance, as well as for priority concerns such as formalisation and non-traditional distribution;
- Greater **supervisory capacity building** to achieve a better balance and to develop appropriate regulation that encourages innovation, while avoiding excessive costs for the industry;
- More **focus on data collection, analysis and updates** to monitor and respond to market trends, achievements, performance, and client satisfaction;
- Thematic or jurisdiction-based **assessments of regulatory effectiveness** to measure progress, identify remaining challenges, and share lessons about what works;
- **Extended and more frequent peer dialogue,** especially among supervisors with similar challenges;
- **More support for financial education efforts** of supervisors, either on their own or with national peers such as the central bank or other authorities.

The past decade of microinsurance development, whether from the regulatory, business or consumer perspective, has provided ample lessons for supervisors. As the market continues to evolve, supervisors will likely face new, unpredicted challenges and a need to continually develop and test new policy and regulatory measures. Sustained knowledge generation and dissemination, supervisory peer dialogue and learning and capacity building will be invaluable in driving this process. With the indispensable support of the supervisory community, international development agencies, the industry and other key stakeholders, it is hoped that these activities will continue to intensify, bringing us closer towards the shared goal of bringing inclusive and responsible insurance to the financially vulnerable.

The IAIS and A2ii welcome comments and suggestions from supervisors and other readers as we strive to bring you more practical guidance and tools. For more information, please contact us at info@access-to-insurance.org (or see further details at www.a2ii.org*). Our shared goal is visionary leadership and proactive engagement in local, regional and international platforms. With the right support, we believe that supervisors can have a meaningful impact on inclusive insurance market development.*

ONGOING IAIS GUIDANCE AND A2ii SUPPORT

In this respect the A2ii as the implementation partner of the IAIS on financial inclusion has established a number of platforms to actively provide support to supervisors. The A2ii's work covers the following key focus areas:

- Knowledge generation and dissemination[41]
- Input for development of IAIS global standards and guidance
- Dialogue and learning among supervisors
- Supervisory capacity development via training, workshops and seminars
- Support for country and regional implementation processes

41 See Annex for a list of resources and publications

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Further Reading and Guidance Material

IAIS Guidance Material

The IAIS has published a range of guidance material, primarily in the form of its Issues Papers and Applications Papers. These aim to support supervisors in applying the relevant areas of the ICPs in a proportionate manner to the nature, scale and complexity of the risk in the specific country's market context, in order to enable the development of inclusive insurance markets. Key reference material includes:

1. Insurance Core Principles (updated November 2015)
2. Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets (2012)
3. Issues in Regulation and Supervision of Microinsurance (2007) (IAIS-CGAP Joint Working Group on Microinsurance)
4. Issues Paper on the Regulation and Supervision of Mutuals, Cooperatives and other Community-based Organisations in Increasing Access to Insurance Markets (2010) (IAIS-MicroInsurance Network Joint Working Group on Microinsurance)
5. Issues Paper on Conduct Business in Inclusive Insurance (2015)
6. Issues in Regulation and Supervision of Microtakāful (Islamic Microinsurance) (jointly published with the Islamic Financial Services Board)

A2ii-IAIS Consultation Call Reports

A2ii hosts bi-monthly consultation calls for supervisory and regulatory authorities. The calls offer a supervisor-only exchange platform to discuss current regulatory and supervisory topics and trends around access to insurance. Each call is followed by the publication of a report reflecting the discussions that took place.

1. Definition of Microinsurance in Regulation(2014)
2. Regulatory Definition of Microinsurance II (2016)
3. Product Oversight in Inclusive Insurance (2014)
4. Agriculture Insurance (2014)
5. Proportionate Approaches to the Supervision of Intermediaries (2016)
6. Formalization (2015)
7. Mutuals, Cooperatives and other Community Based Organisations (MCCOs) in inclusive insurance (2015)
8. Successful Business Models in Microinsurance (2014)
9. Technical innovations in insurance distribution and regulatory implications (2014)
10. Actuarial Approaches to Inclusive Insurance (2015)
11. Risk-based Supervision in Inclusive Insurance (2015)
12. Consumer Protection (2014)
13. Financial Consumer Education (2015)
14. Supervisory Responses to Consumer Risks in Mobile Insurance (2015)
15. Regulatory Incentives for Insurance Market Development (2016)
16. Experiences in implementing regulatory frameworks for inclusive insurance (2016)

For more useful toolkits, publications and resources see
https://a2ii.org/ and http://www.iaisweb.org/page/supervisory-material.

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