Why regulate Microinsurance?

« to make life easier for everyone »

« to create the open and flexible architecture needed and to shift restrictions and barriers out of the law and manage them more flexibly in subsidiary rules »
Emerging customers need trust in insurance providers, and in consumer protection.

Existing regulation and supervision may not create enough trust.

Existing regulation may not create the right consumer protection.

Existing regulation may be an obstacle:
- Too restrictive distribution rules
- Too costly capital requirements
- Caps on commission, premium payment requirements and similar operational constraints
What is Microinsurance? (What is Inclusive Insurance?)

Why do we need to define Microinsurance?

- To regulate and supervise it
- To help it flourish
- To ringfence it from conventional insurance (in order to endorse targeting of support interventions and prevent regulatory arbitrage)
- To protect emerging customers

How do we best define Microinsurance?

- By product «size»?
- By socioeconomic target group?
- By intention?

But what is Inclusive Insurance?

Regulation of Microinsurance
The IAIS 2007 Issues

Develop interpretations for conducive application of ICPs in respect of

Supervisory review and licensing

Financial and prudential issues

Governance

Operational issues

Market conduct issues

“Regulation of microinsurance aims foremost at consumer protection”

Regulation of Microinsurance
The new 2011 ICPs

26 Insurance Core Principles

Supervisory Objectives and the Supervisor
- ICP 1 - Supervisory Objectives
- ICP 2 - The Supervisor
- ICP 3 - Info. Exchange and Confidentiality

Insurer Licensing, Suitability and Control
- ICP 4 - Licensing
- ICP 5 - Suitability of Persons
- ICP 6 - Control

Insurer Governance and Internal Control
- ICP 7 - Corporate Governance
- ICP 8 - Risk Management and Internal Controls

Supervisory Process, Preemptive Action, Enforcement and Winding-up
- ICP 9 - Supervisory Review and Reporting
- ICP 10 - Preventative, and Corrective Measures
- ICP 11 - Enforcement
- ICP 12 - Winding-up and Exit

Prudential Standards, Valuation and Reinsurance
- ICP 13 - Reinsurance
- ICP 14 - Valuation
- ICP 15 - Investment
- ICP 16 - ERM for Solvency Purposes

Market Conduct and Consumer Protection
- ICP 17 - Capital Adequacy
- ICP 18 - Intermediaries
- ICP 19 - Conduct of Business
- ICP 20 - Public Disclosure
- ICP 21 - Countering Fraud
- ICP 22 - AML – CFT
- ICP 23 - Group Wide Supervision
- ICP 24 - Macro prudential Surveillance
- ICP 25 - Supervisory Cooperation and Coordination
- ICP 26 – Cross Border Crisis Management
The IAIS 2012 recommendations

When implementing the (new) ICPs with the objective to protect policyholders, contribute to local and global financial stability, and enhance inclusive insurance markets, pay attention to

Formality

Innovation

Proportionality

Coordination

Regulation of Microinsurance
Formality

It is acknowledged that
• many people use insurance-like arrangements that are not formal,
• there are understandable reasons for that,
• but this is not ideal

How can informal schemes be attracted into formality?

What about pilot projects?
Microinsurance usually requires profound reengineering to work

- communication,
- distribution,
- enrolment,
- products,
- services and processes.

What’s in it for insurers?
Proportionality

In other words: «adjust certain supervisory requirements and actions in accordance with the nature, scale and complexity of risks posed by individual insurers”

What does regulation want to achieve?

How is that best achieved?

Best measures are

• suitable,
• necessary,
• appropriate.

But there is a limit to proportionality
Coordination of roles and responsibilities

What does the government’s Financial Sector (Development) Policy look like?

Who regulates and supervises the (numerous) players along the microinsurance value chain?

What mechanisms of consumer protection and complaints resolution are available to microinsurance clients?

Who has (and shares) what information?
A recent example: Kenya

Microinsurance Policy Paper objectives:

• Encourage private sector engagement
• Relax barriers to entry and minimise the regulatory burden
• Ensure sufficient prudential regulation and reporting
• Facilitate the transition to formalised insurance provision
• Protect the interests of customers by requiring transparency
• Ensure customers’ understanding of easy claims processes and quick payment
• Ensure the protection of the rights, customer complaint mechanism
• Require the ongoing training of underwriters and distributors
How can we best help Microinsurance?

“Trust comes on foot, but leaves on horseback”
(Dutch proverb)