



# Regulatory issues in Microinsurance

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# What is Needed for Microinsurance development


- Government
  - Development policy, hopefully for a flourishing population
- Regulators
  - Financial stability and consumer protection
- Insurance companies
  - Hopefully have a long term view of developing a client base
- Donors
  - Support knowledge sharing on the value of Microinsurance
- Popular organizations
  - Create value to their client base while improving overall situation



# Government



- Creating a stable environment with clear rules
  - Eg. Philippines
  - Set up a steering committee with Governor of Bank of Philippines, Co-operative, Insurance Regulator and other interested parties
  - Create dialogue to enable the development of microinsurance with TWG on various technical issues in Microinsurance, dialogue with all segments of potential participants.
- Setting the correct tax revenue policy
  - In many countries insurance products attract taxes. Understanding the need for government to finance services....they sometimes hinder the development of services and overall economic improvement. E.g. Tax on agricultural insurance for low income producers while trying to improve food security with subsidized agricultural insurance!



# Regulators, Microinsurance is “New”, so a change in thinking is required

- **Proportionate regulations** needed for Microinsurance
  - Regulators and IAIS struggle how to do this.
  - The role of the actuary not always needed
- **Lower minimum capital requirement** for microinsurance, retain Risk Based Capital. ( Why is this needed....current insurers are slow to innovate)
- **Create Access to markets with new distribution channels.** Be the Uber of insurance!
- **Review after a few years and make more changes** if desired goal is not reached.
- **Monitor using KPI's.**



# Peru

Source Regulatory Impact Assessments By Martina Wiedmaier-Pfister and Hui Lin Chiew

- 2007-2009
  - Definition of Microinsurance
  - New Distribution channels
  - Conduct of business, in terms of claims, Premium, Policy certificate, complaints and reporting.
- 2009-2015
  - Abandon Quantitative definition of Microinsurance
  - More distribution and policy flexibility
  - Mass distribution law



# Peru (Continued)

Source Regulatory Impact Assessments By Martina Wiedmaier-Pfister and Hui Lin Chiew

## ➤ 2016+

### ➤ Consultation with industry, recognize gaps

- A new definition of microinsurance with mixed qualitative and quantitative parameters

### ➤ A more efficient product registration process

- Use of electronic policies and distance marketing


- Conduct of business improvements, i.e. shorter claims settlement timeline, disclosure, training and supervision of intermediaries

Be really open to a new way of doing things



# Philippines

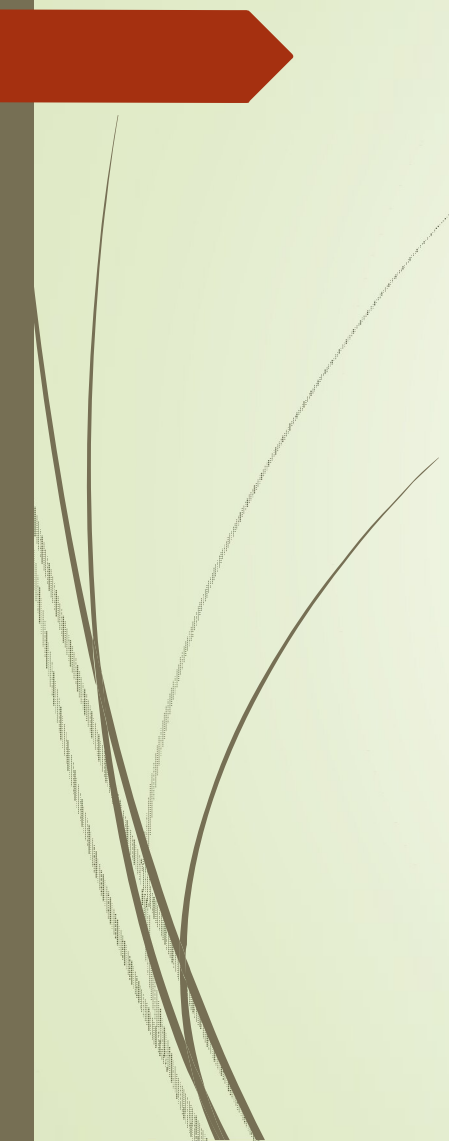
- 1 (2006 – 2009) Definition of microinsurance, the first proportionate rules on product and distribution and creation of a new tier of microinsurance providers
  - • IC Circular creating MI-MBAs, defining microinsurance, setting product and intermediary standards • Lighter Know Your Customer (KYC) requirements • Central bank (Bangko Sentral ng Pilipinas, BSP) rule allowing rural and thrift banks to market microinsurance
- 2 (2010 – 2013) Introduction of comprehensive set of national strategies for microinsurance including a proportionate regulatory framework
  - • Joint formalisation approach across supervisors • One overarching strategy, the National Microinsurance Strategy
  - (2010), and three additional microinsurance strategies: Regulatory Framework for Microinsurance, The Road Map to Financial Literacy and the Alternative Dispute Resolution Framework • A series of legal and regulatory instruments putting into effect the strategies, mostly of the IC but some involving other authorities • Circular and system on separate performance monitoring for microinsurance (SEGURO)



## Philippines (Continued)

- 3 (2015 onwards) The regulatory framework was broadened in scope and refined based on market experience by way of a revised overall regulation and regulations for specific lines
  - • Issuance of IC regulations called “Enhanced Regulatory Framework” addressing microinsurance distribution product bundling and reinsurance • Issuance of IC regulations for certain sectors via three regulatory frameworks including MicroAgri Framework, Micro Pre-need Framework and MicroHealth Framework





# Look for results in reaching broader Population

- Philippines reaching 31 million
  - The 31 million may be overstated as one large distribution system has clients renewal every 4 months. Closer to 20 million, which is still 20% of population
  - Typhon Hayan ...between 100,000 to 150,000 had claims paid.
- Issue Philippines
  - Claim ratio varies from 23% to 44% (Typhon Hayan impact)
- Peru
  - Including mass markets reaching 6.1 million, Microinsurance over 850,000, range from 3% to 20% of population
- Issue Peru
  - Claim ratio below 25%,some very high commissions



# Actuarial issues

- ▶ Actuaries pricing in a market that they do not understand and doing the wrong calculation
- ▶ New to market and adding margin upon margin to extend the product does not sell.
  - ▶ Need to price just right not too high nor too low
- ▶ Others using actuarial reports without understanding the context and getting it wrong



# What not to do

- Add regulations that are not required
  - Requiring companies to survey clients every two years
    - This is smart business....should not be a regulation
  - Product approval process, best is none, second file and use
  - Ask for actuarial calculation
    - It would be better to ask how is it priced and not tie it to an actuarial calculation
    - Ghana versus Kenya
- Many consumer protection measures are really unreachable to the clients
  - Push responsibility back to base organization and use KPT's



# Conclusion



- Be really open to a new way of doing things
  - Lower minimum capital, keep Risk Based Capital
  - Open up new distribution channels
  - Simplify document require and method of legalizing (Mobile products etc)
  - Proportionate training and information
  - Capacity Building of Regulators and insurance sector
  - Excessive demands will not result in market development
    - Actuarial report when not required
  - Review and update
  - Monitor KPI for consumer value. High commission is a problem! Need Claims ratio above 60%. Regulators should collect premium, claims data and number insured
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- The measure will be are you reaching the target market and is the product of value?