

# ROUNDTABLE ON MICROINSURANCE REGULATION

## REGULATING MICROINSURANCE: A PRIVATE SECTOR VIEW BASED ON THE COLOMBIAN EXPERIENCE

**Roberto Junguito**  
Executive President

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### INTRODUCTION: APPROACHES TOWARDS MICROINSURANCE REGULATION

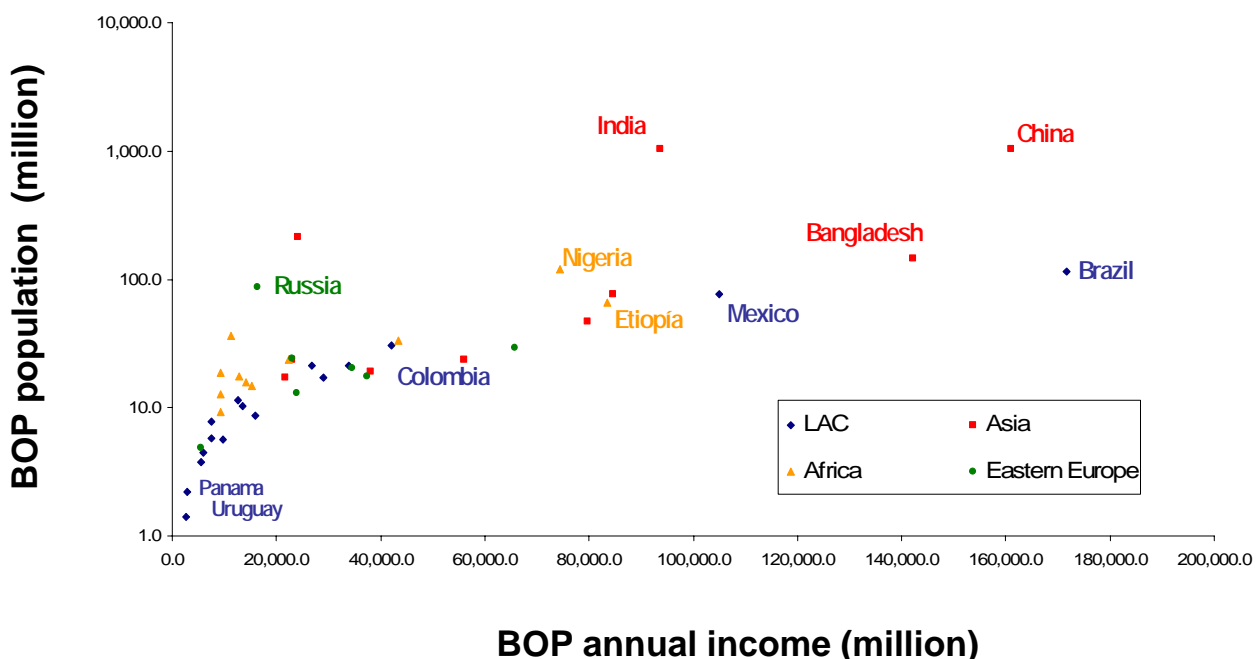
#### Two main approaches:

- **One is to consider microinsurance as a separate line of business and, as a consequence, establish particular rules and regulations.**
- **A second approach is to have general rules and regulations for the insurance activity, independently on whether they apply to microinsurance or other insurance products.**

# LESSONS FROM THE COLOMBIAN EXPERIENCE

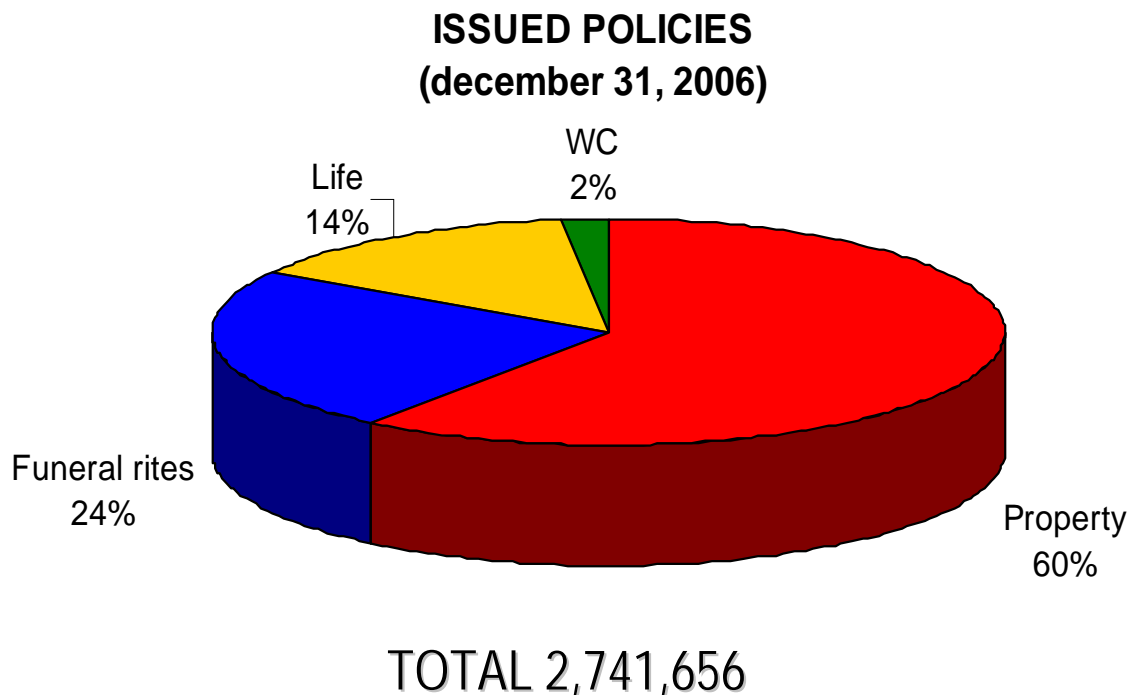
- **Colombia is a country case where microinsurance has been developing rapidly through private sector initiative, without any special laws, rules or regulations.**
- **More than 40% of insurance companies in Colombia (national and foreign capital based, mutual cooperatives and one state-owned) already offer some type of microinsurance products.**
- **According to the Microinsurance Center and our own statistics there are near three million policies issued. Microinsurance encompasses more than 5% of all premiums.**

## BASE OF THE PYRAMID



Source: IFC

# NUMBER OF INSURANCE POLICIES

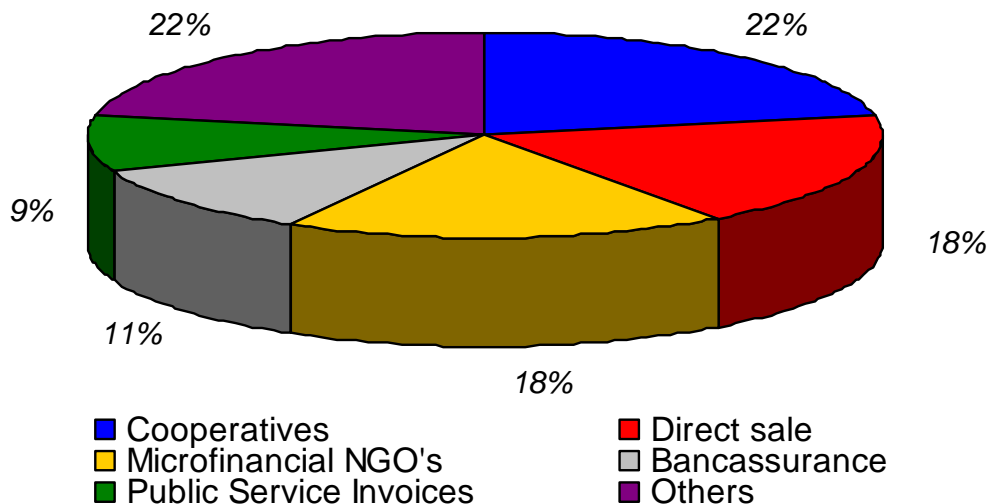


Source: Fasesolda

## LESSONS FROM THE COLOMBIAN EXPERIENCE

- **The development of microinsurance has been based on market solutions, where companies compete by offering alternative combinations of products and coverage, through different distribution channels.**
- **The experience indicates that the scale of operation must be very small in terms of premiums but in high volumes, and that the process should be innovative, both in terms of product combination and in distribution mechanisms, which ought to be low cost and massive.**

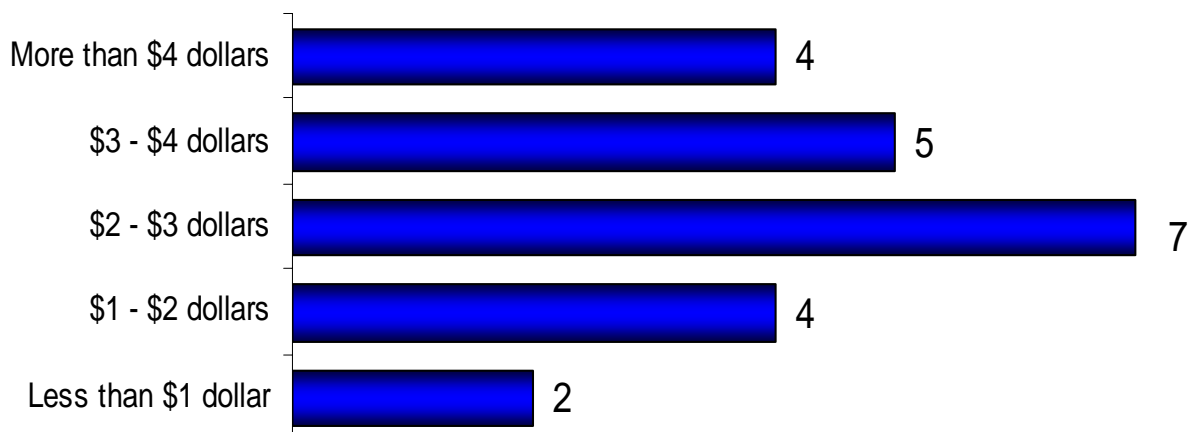
# DISTRIBUTION CHANNELS



Source: Fasesolda

# PRICE OF MICROINSURANCE PREMIUMS

**Number of Microinsurance Products According to Monthly Premiums**



Source: Fasesolda

## LESSONS FROM THE COLOMBIAN EXPERIENCE

- **We have confirmed that the distribution of microinsurance products is easier when done together with other micro-financial services.**
- **We have found that the costs are high in training agents and in educating the clients. In that regard, policies should be easy to understand and to explain.**
- **In Colombia, insurance companies understand well that microinsurance, besides becoming a line of business is also part of companies' social responsibility agenda.**

## VIEWS ON MICROINSURANCE REGULATION

- **We do not believe that supervisors and/or regulators should promote microinsurance. We, therefore, find it inadequate to have the regulator promote a special institution to provide microinsurance.**
- **Nor, do we consider that microinsurance should be a special line of business authorized by the Supervisor. The provision of microinsurance should be done by insurance companies in a competitive environment within their authorized lines of business.**
- **We believe that the establishment of a public sector company with the particular mandate of providing microinsurance could easily lead to populist policies, as it happened in the case of popular low-cost housing in Colombia. Our experience shows that state monopolies tend to be inefficient.**

## IEWS ON MICROINSURANCE REGULATION

- **We consider that the same rules and regulations should be applied both to microinsurance and to ordinary insurance business lines. Therefore, we do not believe that there should be particular regulatory incentives to promote microinsurance.**
- **However, there could be some exceptions depending on countries' particular circumstances. In the case of Colombia, a "know your client" obligation to prevent money laundering becomes An obstacle to facilitate microinsurance provision in a massive way and should be simplified.**
- **It is extremely important not only for consumer protection but also for the establishment of a competitive environment, that informal insurance providers be formalized.**

## IEWS ON MICROINSURANCE REGULATION

- **Consumer protection, measurement of consumer satisfaction and claims should have similar rules to those applied to other insurance products. In the case of microinsurance the supervisor should be specially attentive and rigorous in terms of sanctions.**
- **In our view, policies should not be standardized, although the supervisor should encourage that they be made simple and easy to understand. Neither, do we think that the regulator should stimulate preferred distribution channels.**

## IEWS ON MICROINSURANCE REGULATION

- We think that the access to insurance to the poorest of the poor could be encouraged through fiscal incentives to companies providing targeted microinsurance products.
- Fiscal incentives are appropriate to reduce insurance market rates, given that among such income groups risks and distribution costs are higher.
- In this case, the Government must define an income level line of the beneficiaries of insurance policies below which the fiscal incentives would apply.

## IEWS ON MICROINSURANCE REGULATION

- Compulsory insurance schemes are appropriate when market failures occur. In many countries, first pillar social security, basic health insurance, workers' compensation and personal injuries from motor vehicles' accidents are compulsory insurance obligations. Market failures of such nature occur independently of the income level of the beneficiary.
- Besides insurance companies, both intermediaries and reinsurers' have a significant role to play in microinsurance provision. We also believe that multilateral agencies can help out, particularly in financing studies to reach lower income groups and by promoting insurance culture.

## FINAL COMMENTS

- **Given our ongoing experience, we believe that a market oriented approach is appropriate for the provision of insurance to the poor, and that it can comply with desired social objectives.**
- **Moreover, this can be achieved using the same general rules and regulations for the insurance activity with a minimum of particular regulatory incentives to promote microinsurance.**

## FINAL COMMENTS

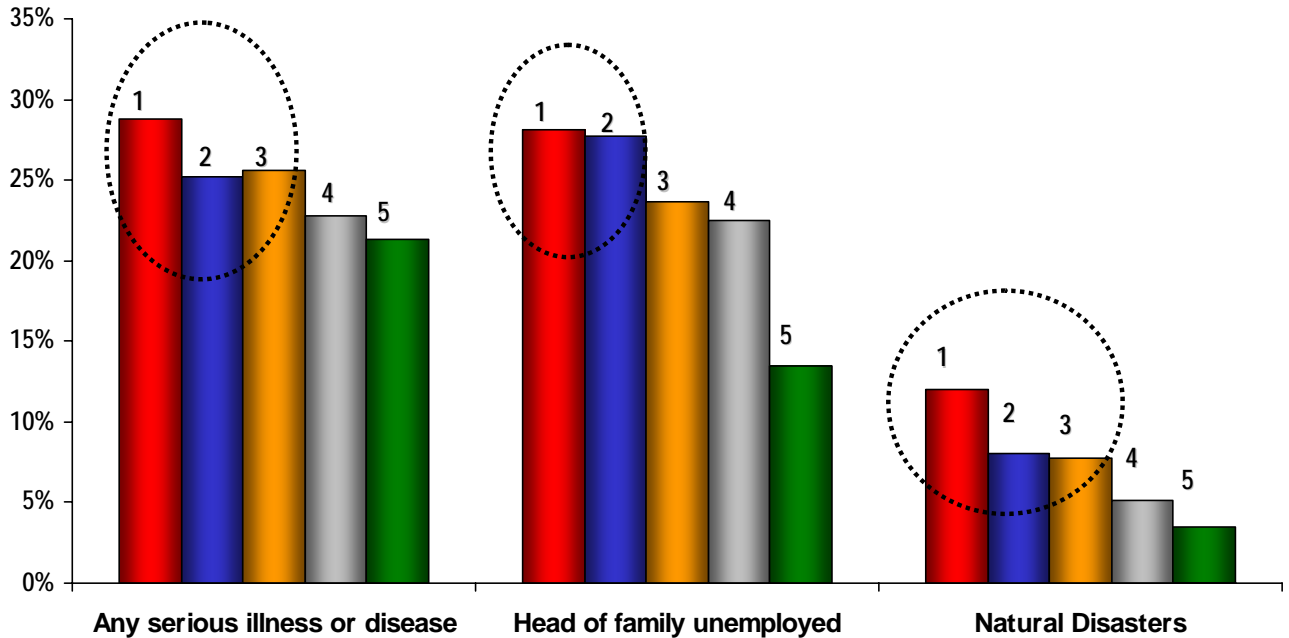
- **Above all, we have the view that insurance for the poor is a priority. The poor are more vulnerable to risks and without microinsurance their losses are covered through perverse strategies**



# THE POOR ARE MORE VULNERABLE TO RISKS

## COLOMBIA

SHARE OF HOUSEHOLDS THAT SUFFERED ECONOMIC HEALTH AND NATURAL DISASTER SETBACKS, BY INCOME QUINTILE

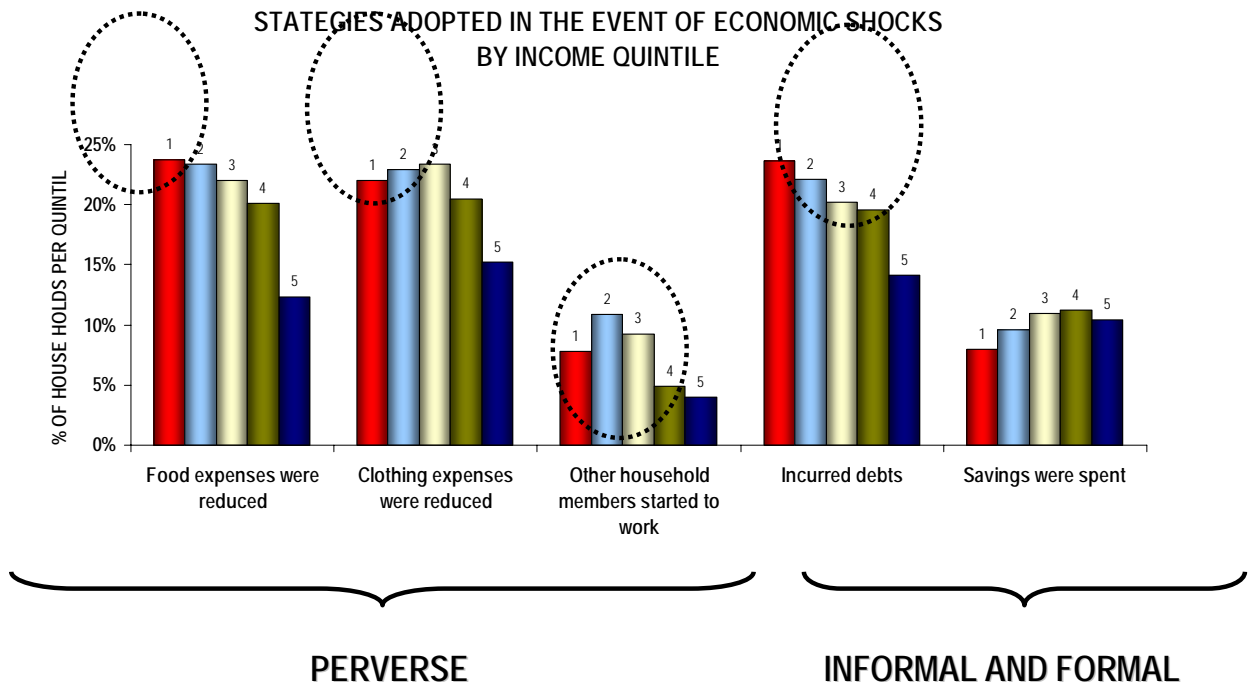


Source: Living Standards Measurement Study Survey, 2003

# THE POOR ADOPT PERVERSE STRATEGIES TO COVER LOSSES

## COLOMBIA

STRATEGIES ADOPTED IN THE EVENT OF ECONOMIC SHOCKS BY INCOME QUINTILE



Source: Living Standards Measurement Study Survey, 2003