



AMIS

Asociación Mexicana de
Instituciones de Seguros, A.C.

Regulations, Supervision, and Public Policies

Microinsurance regulatory guidelines

THE MEXICAN EXPERIENCE AND INTERNATIONAL TRENDS

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CEO AMIS
November, 2008

Table of Contents

- **Reference frame.**
- **The actors.**
 - Their particular traits.
 - Their regulatory support needs.
- **Microinsurance life cycle.**
 - Reference points regarding the overall regulatory work frame.
- **International characterization.**
- **Conclusions.**
 - Microinsurance development promotion regulatory principles.

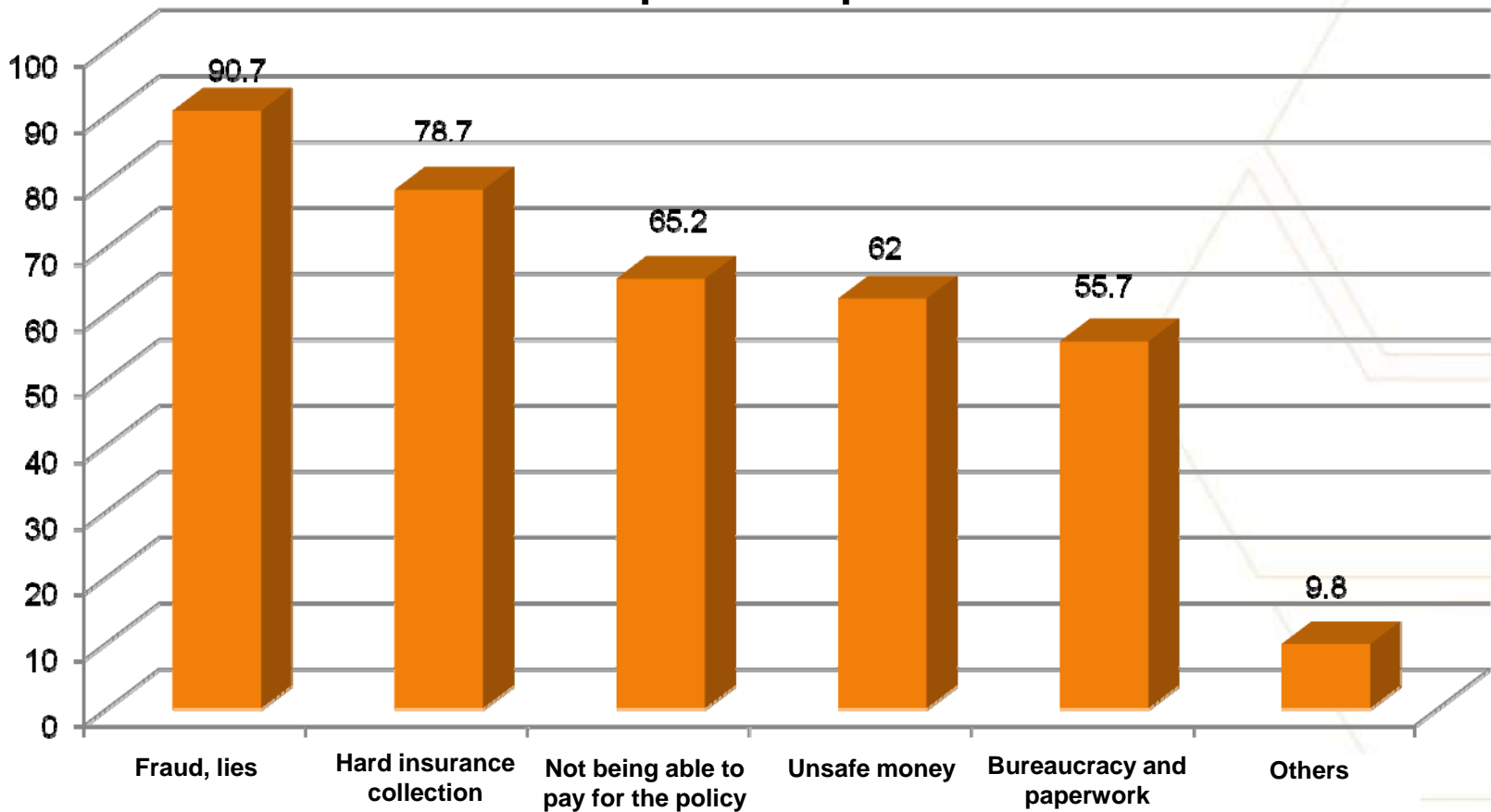




The reference frame.

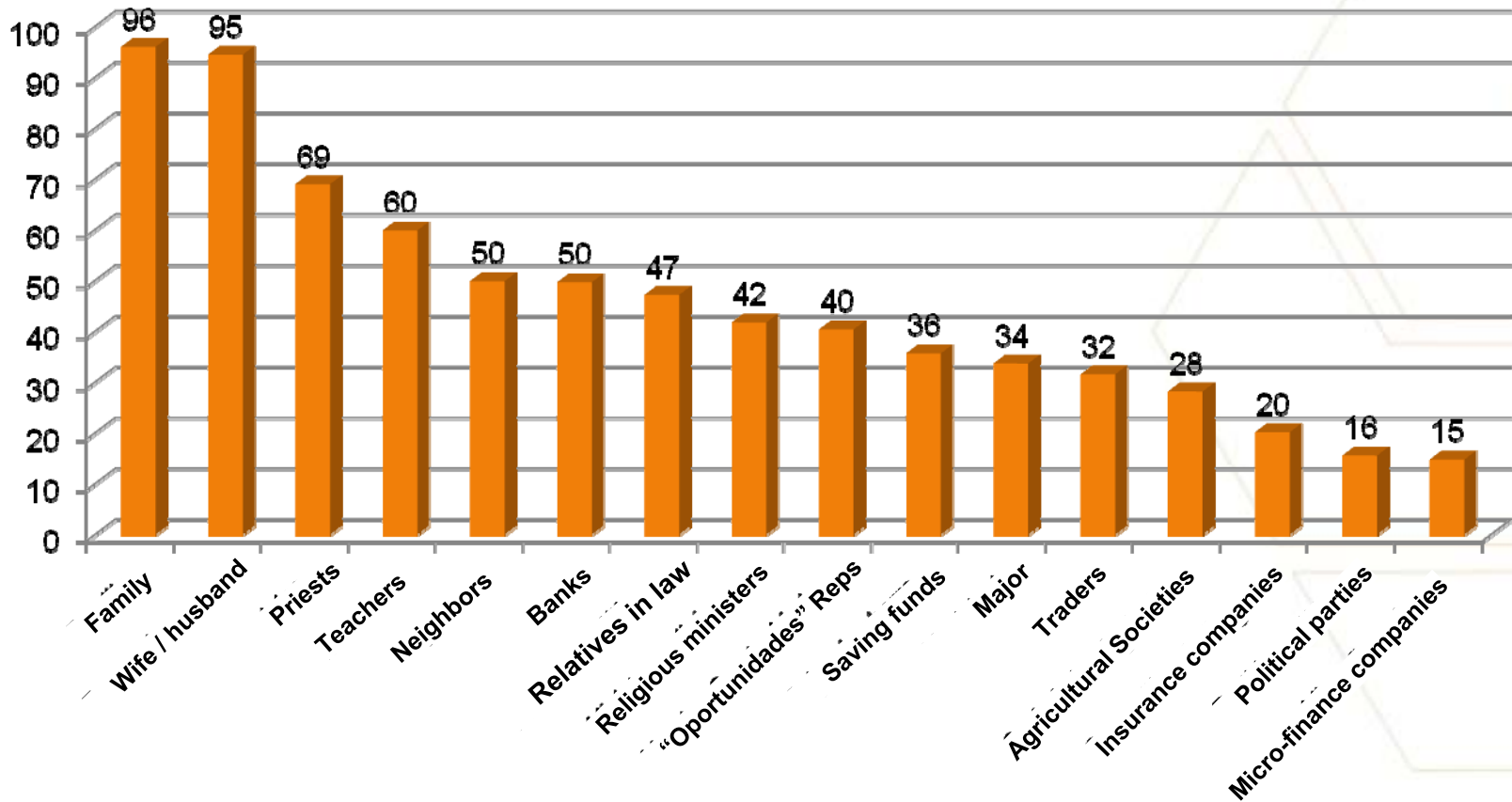
FEARS LEADING NOT TO ACQUIRE AN INSURANCE POLICY

When acquiring an insurance policy, How afraid are you about...?
Independent questions



SOCIAL CAPITAL

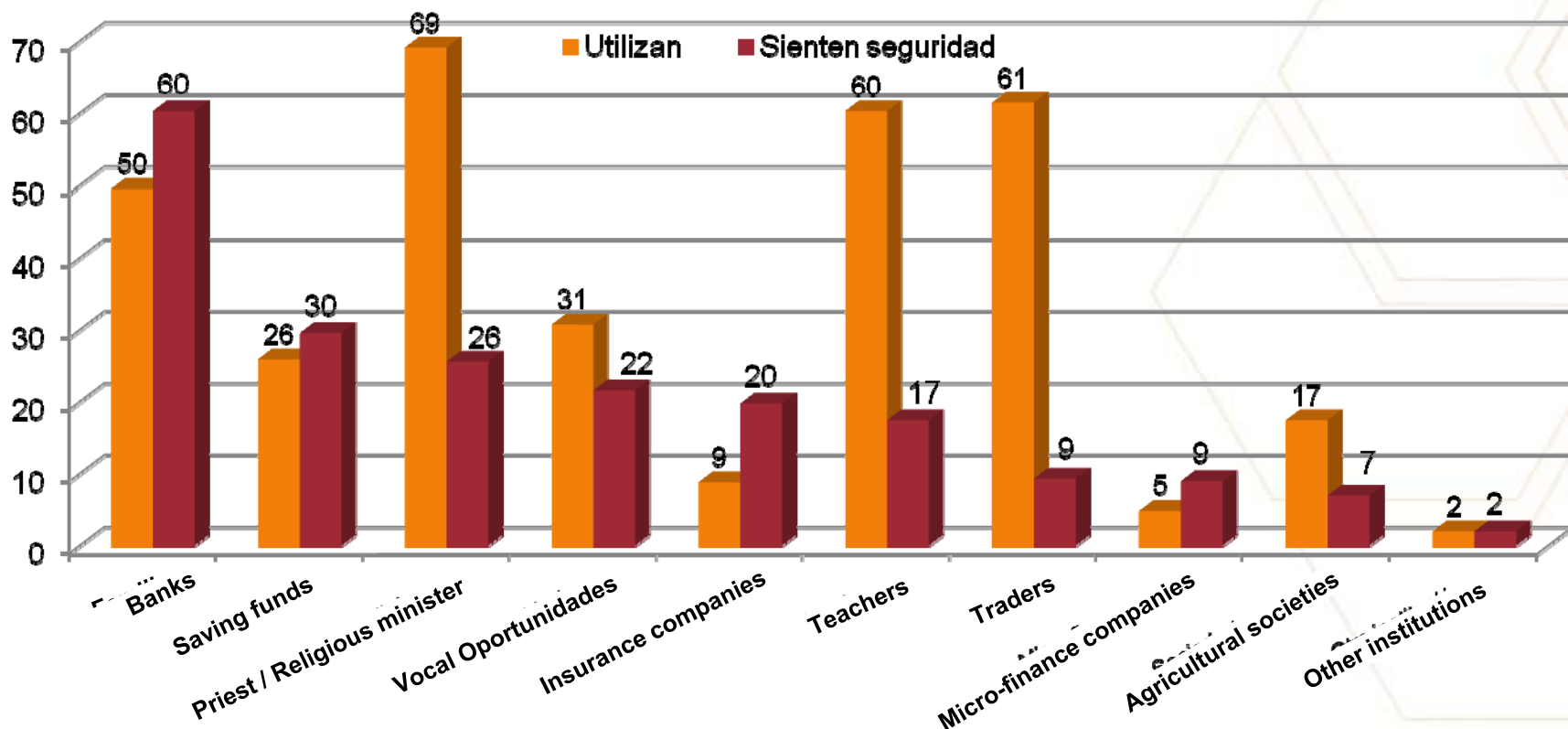
Do you trust...? / Percent affirmative responses



Source: Mexico Micro-insurance Survey

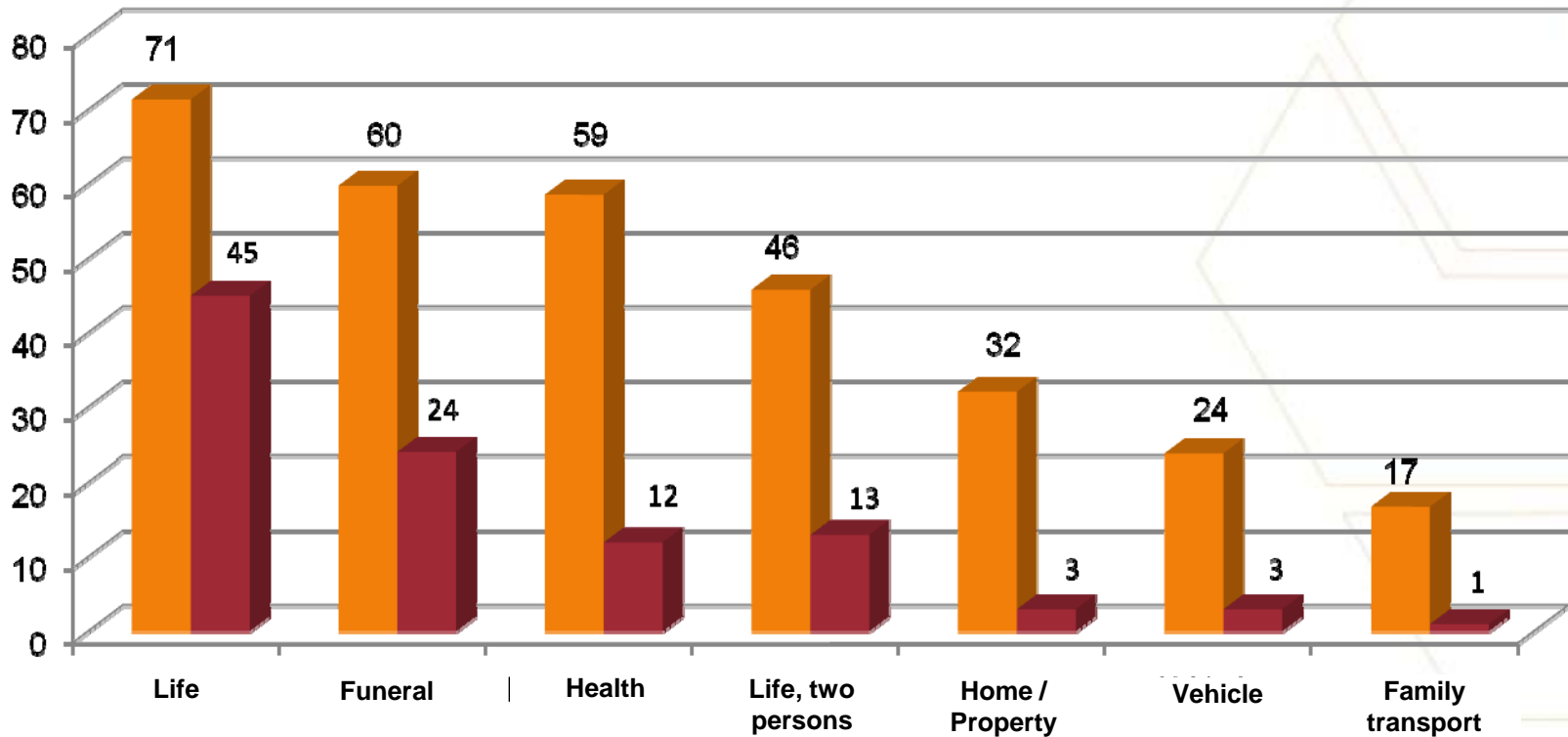
INSTITUTIONS / PEOPLE THEY TRUST / USE TO PAY THE PREMIUM

Would you feel safe to pay in / with...? / Do you use / employ...?



BUYING INTEREST

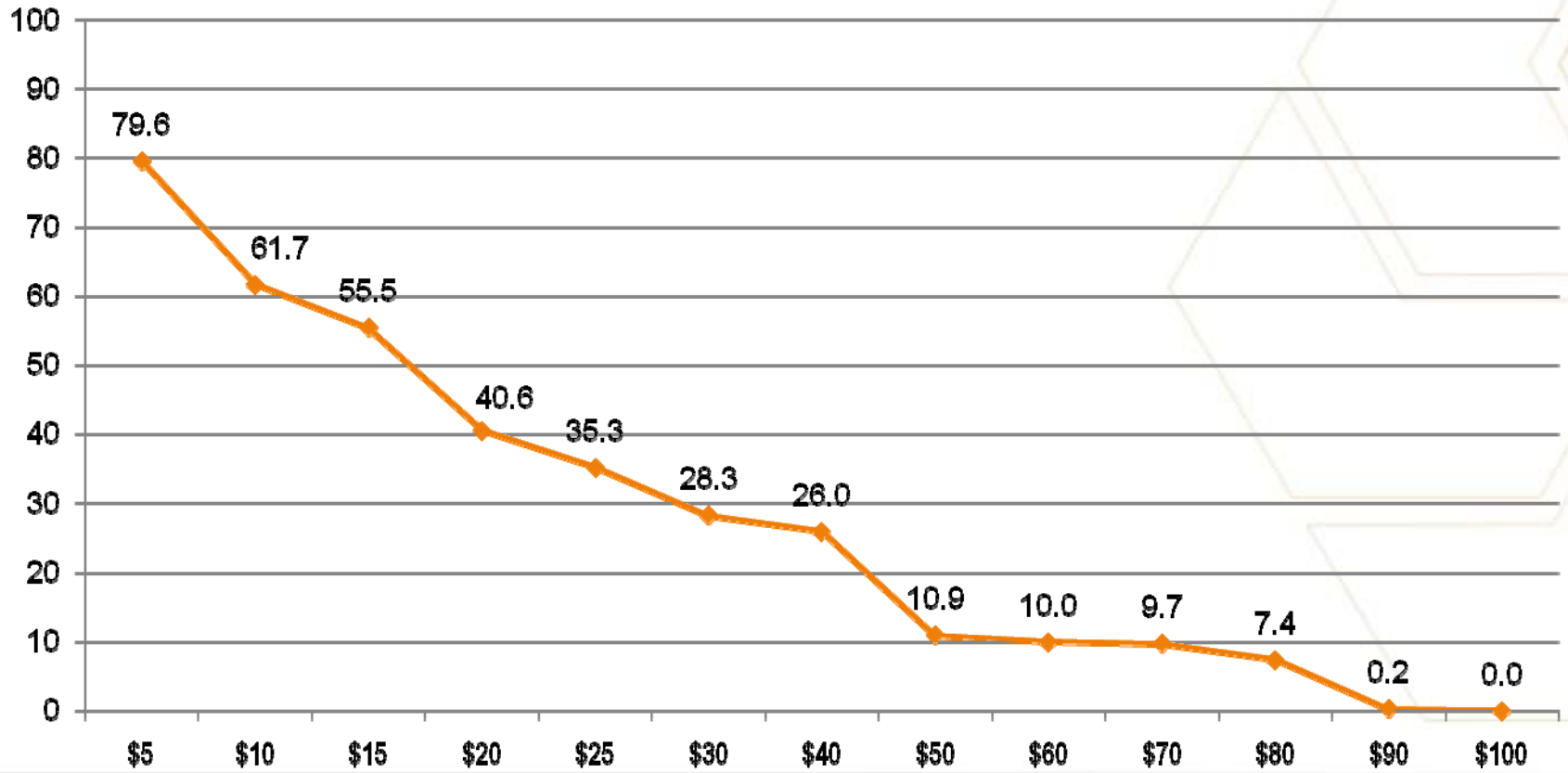
Interest in having insurance for... / % affirmative responses
In which of the following policies would you be most interested?



Source: Mexico Micro-insurance Survey

BUYING INTEREST / DEMAND CURVE

What is the maximum amount you would be willing to pay monthly for life insurance? / % affirmative responses



Source: Mexico Micro-insurance Survey

- 
- 
- **The actors.**
 - **Their particular traits.**
 - **Their regulatory support needs.**

MICROINSURANCE MARKET CHARACTERIZATION

JURIDICAL FRAME: FISCAL, MERCANTILE, CIVIL, SPECIFIC CONSTITUTION.

OVERALL SYNERGY: THE ASSOCIATION

SUPPLY



DEMAND

SUPPLY

INTERMEDIATION

DEMAND

- Poverty.
- Dispersion.
- Mobility.
- Home/business in same site.
- Risk exposure.
- Risk vulnerability.
- Catastrophic.
- Lack of confidence.
- Low self esteem.
- Low culture in general.
 - Academic.
 - Financial.
 - Insurance.
 - Prevision.
- Scarce/null access to Financial system.
- Feasibility.
 - Incredulity.
 - Feeling.
 - Won't happen to me.
 - Government.
 - Broad family.
 - Dependence on support.
 - Family.
 - Community.
 - Government.
- Afraid about non compliance.
- Influence to fraud.



SUPPLY

- Excess regulation for the operation.
 - Product registration.
 - Distribution.
 - Collections.
 - Claim payments.
 - Proof documentation .
 - Payment requirements for writing off.
- Beneficiary designation.

INTERMEDIATION

DEMAND





SUPPLY

INTERMEDIATION

DEMAND

- **Microfinance companies.**
- **Excess regulation to intermediation.**
 - **Certification.**
 - **Training**
- **Mass sales for placement.**
- **Remittances.**
- **Influence groups.**
- **Risk with the staff of potential strategic allies.**
 - **High turnover rate.**
 - **Low cultural level.**
 - **Academic.**
 - **Financial.**
 - **Insurance.**
 - **Corruption.**
 - **Fraud.**



INFLUENCE CENTERS

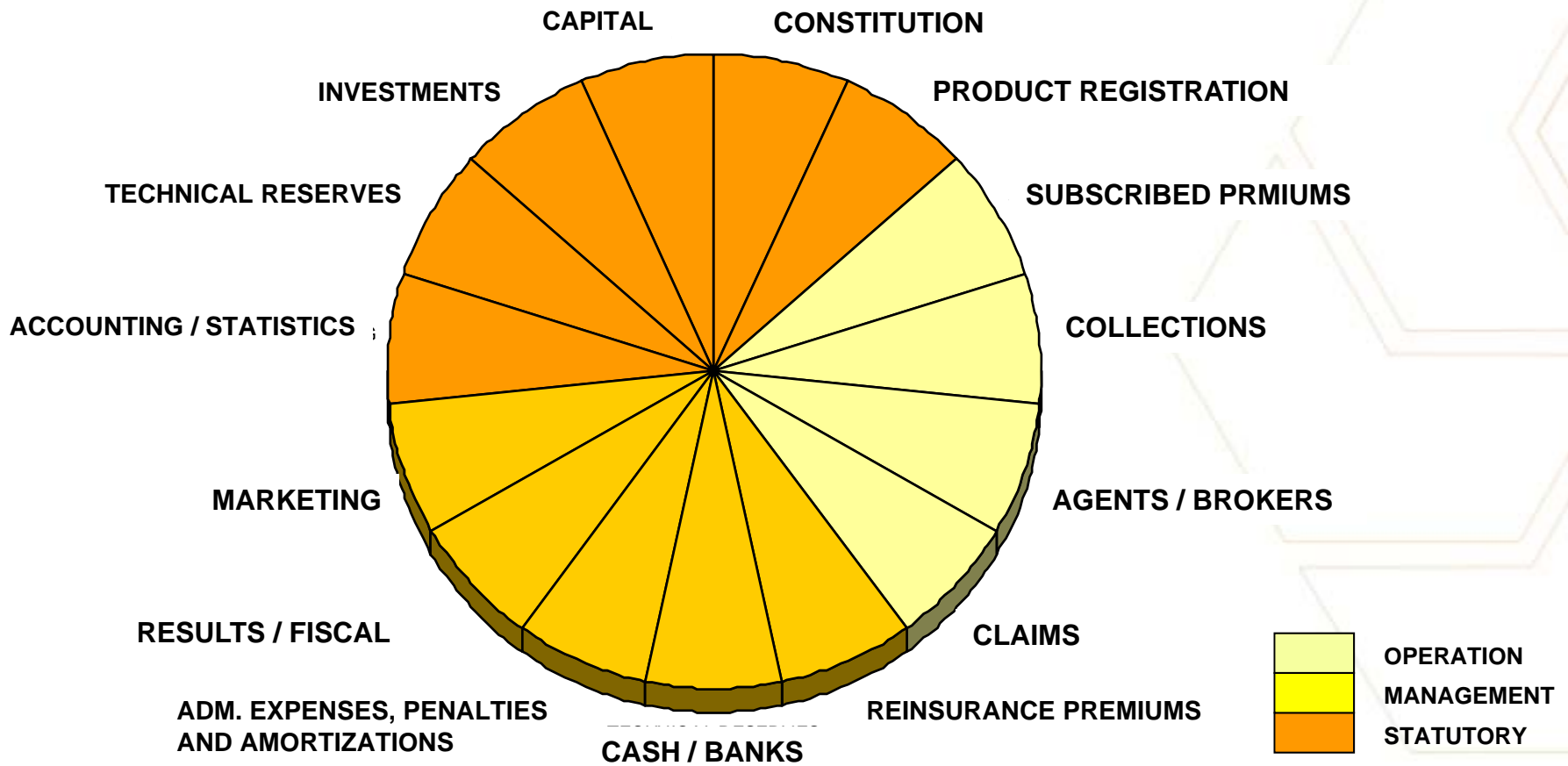
- **TREND OF GROUPS TO GET INTEGRATED AS AN INCENTIVE FOR INSTALLMENT PAYMENTS AND SAVINGS:**
 - **THESE FORMAL AND INFORMAL GROUPS ARE FOUND IN RURAL (FREQUENTLY ISOLATED) OR URBAN (DENSELY POPULATED) LOCATIONS. THEY ARE HEADED BY A NATURAL LEADER, WHO ORGANIZES THEM AND MOVES THEM TO KEEP WORKING IN A PRACTICAL, NON-RESTRICTIVE MANNER.**
 - **THEY ARE FUNDAMENTAL FOR INTERLINKING AND CONTINUITY OF INSURANCE MODELS, DESIGNED WITH A HIGH DOSE OF INNOVATION USING THE SYNERGY AND CONFIDENCE LEVELS EXISTING IN THE COMMUNITIES.**



- **Microinsurance life cycle.**

- **Their reference points regarding the overall regulatory frame.**

IN MICROINSURANCE THE ENTIRE DYNAMIC OCCURS
IN EACH OPERATION CYCLE



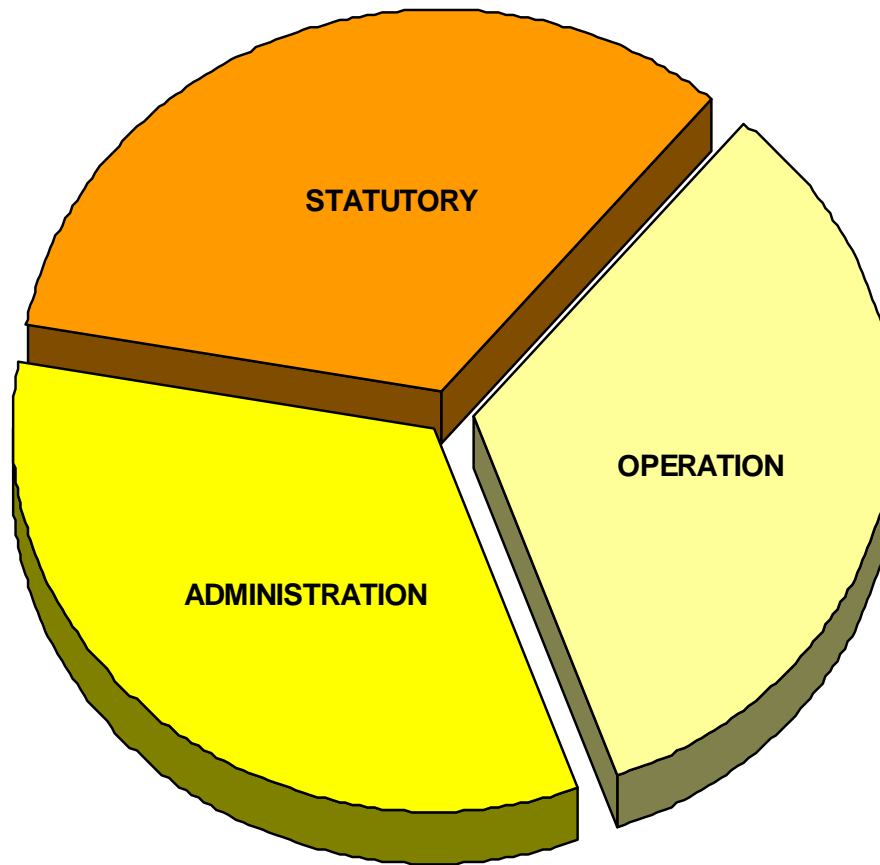
SOURCE: AMIS, based on Vigilancia y Diagnóstico en Aseguradoras de Daños. Jesús Elizondo P.

REGULATORY FRAME SUPPORT TO THE MICROINSURANCE OPERATION CYCLE

PRUDENTIAL FRAME

- SOLVENCY & LIQUIDITY

- EFFICIENCY
- INTEGRAL RISK MANAGEMENT



FACILITATING FRAME

**CHALLENGE:
OVERCOMING
THE RESISTANCE
OF:**

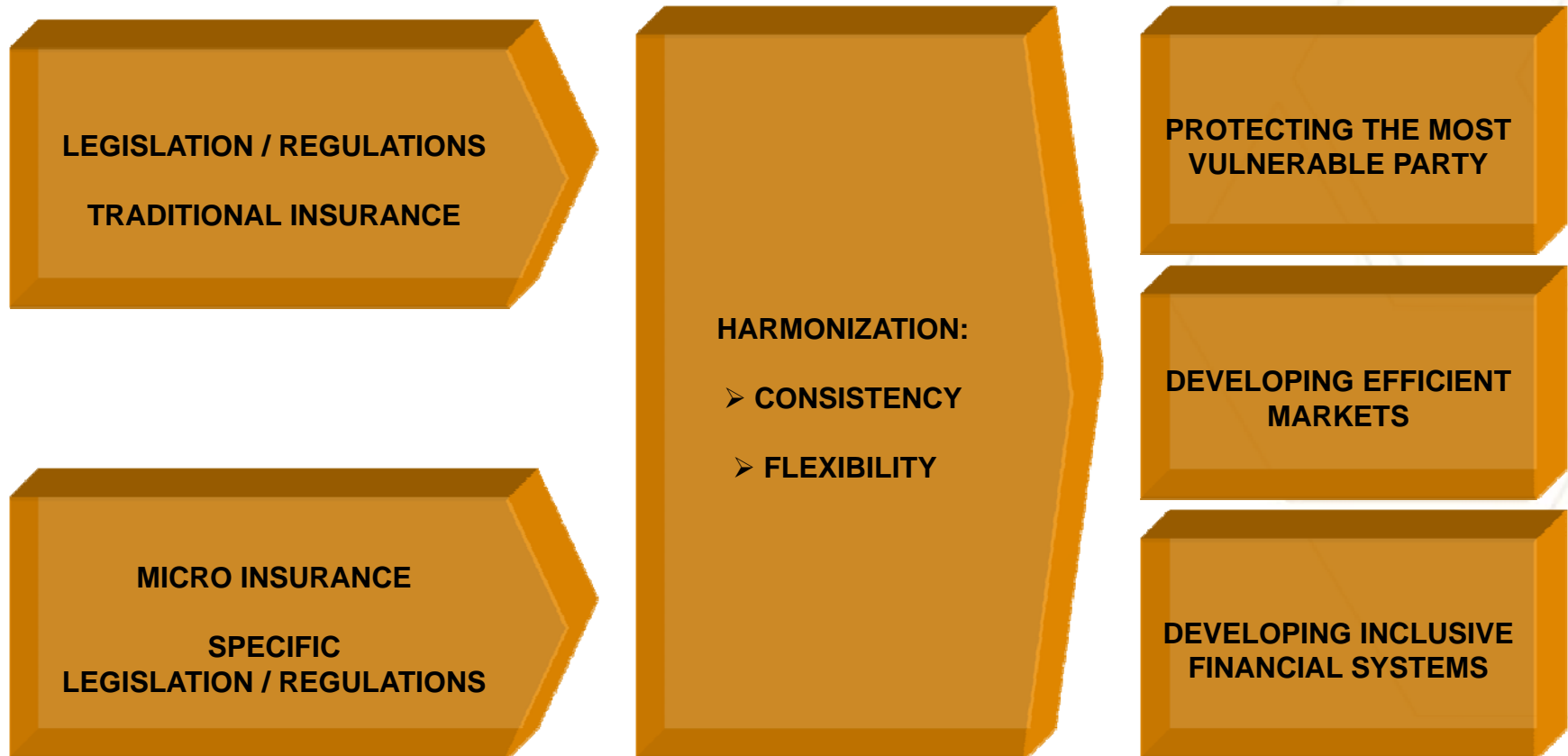
- TIME
- COST
- DISTANCE
- MOBILITY

**A SYSTEM
ARTICULATED /
LUBRICATED BY
REGULATIONS**

BEARER INSURANCE

REGULATORY FRAME:

A PROMOTER OF JURIDICAL FORMALITY / CERTAINTY.



DYNAMICS OF THE GENERATION AND EVOLUTION OF THE REGULATORY PRUDENTIAL, DEVELOPMENT-PROMOTING FRAME *



* MEXICAN EXPERIENCE BASED ON INTERNATIONAL EXPERIENCE

SUPERVISORS CAN – THROUGH POLICIES AND ACTIONS – PROMOTE AN ENVIRONMENT THAT MAKES MICROINSURANCE SUSTAINABLE AND FEASIBLE IN AN INTEGRATED MANNER, BY COMBINING:

- MICROINSURANCE POLICY, PROMOTING ITS IMPLEMENTATION.**
- KEY INFORMATION AND STATISTICAL DATA ABOUT THE MICRO-INSURANCE BUSINESS.**
- LEARNING AND DIALOGUE AMONG ACTORS RELEVANT FOR SECTOR'S DEVELOPMENT.**
- CLEAR LAWS AND REGULATIONS WITH INTERNATIONAL STANDARDS, PROMOTING :**
 - COVERAGE.**
 - COMPLIANCE.**
 - REGULATORY ARBITRATION LIMITS.**
- POLITICAL DIALOGUE FOR SOCIAL SECURITY AND MICRO-INSURANCE TO WORK JOINTLY.**
- CLEAR POLICIES TO INCREASE ACCESS TO FINANCIAL SERVICES, THAT CAN BE USED AS DISCUSSION BASIS WITH LEGISLATORS AND SUPERVISORS.**
- AWARENESS, CONTROLS, AND INCENTIVE SYSTEMS TO LIMIT MORAL RISK AND FRAUD.**
- EDUCATION AND AWARENESS FOR AN INSURANCE CULTURE IN THE LOW-INCOME POPULATION.**

CONSTRUCTING A REGULATORY FRAME THAT PROTECTS THE USED AND DESTROYS BARRIERS

- ❖ **MINIMIZE TRANSACTION COSTS.**
- ❖ **DEFEAT TIME/DISTANCE RESISTANCE.**
- ❖ **DEFEAT LANGUAGE, DISTRUST, IGNORANCE, FEAR BARRIERS.**
- ❖ **PROTECTION AGAINST ABUSE, DOLUS, FRAUD, TAX EVASION.**
- ❖ **MAKE THE MOST OF INSURER'S GOOD WILL, KNOWLEDGE, RESOURCES.**

ACCESSIBLE, VIABLE, WIN – WIN RELATIONSHIP

FOR THE MICROINSURANCE MARKET TO WORK, IT MUST BE SUSTAINABLE ON COMPANY PRINCIPLES, SUSTAINED BY PROFITABLE COUNTER-BENEFITS FOR ALL PARTIES, MANAGED UNDER TECHNICAL INSURANCE FUNDAMENTALS AND HEALTHY RISK MANAGEMENT PRACTICES.

WHY MICROINSURANCE TIME TERMS MUST BE FLEXIBLE?

- **ACCESSIBLE PREMIUMS, ON LOW NUMBERS AND QUANTITIES, BUT WITH HIGH FREQUENCY.**
- **IMPROVED BENEFITS BY NOT DEMANDING PREMIUM CASH/SINGLE PAYMENT.**
- **THERE IS NO FINANCE COST, WHICH IN THIS SECTOR CAN BE EXTREMELY HIGH.**
- **OPERATIVE EFFICIENCY: NO NEED TO FOLLOW UP REHABILITATIONS.**
- **COVERAGE CONTINUITY BY OFFERING AN ALTERNATIVE IN WHICH NOT PAYING THE INSURANCE POLICY DOES NOT IMPLY IMMEDIATE CANCELATION.**
- **INITIAL PLACEMENT EFFORT IS NOT LOST. THIS IS TRANSLATED INTO A LOWER ACQUISITION COST.**
- **TAKING CARE OF THE MARKET WITH *AD-HOC* PRODUCTS.**
 - **IN THE EVENT OF A RELATED PRODUCT SUCH AS A CREDIT, ONE OF THE PRINCIPLES IS THAT THE INSURANCE MUST HAVE IDENTICAL CREDIT TERMS AS THOSE OF THE RELATED PRODUCT OR CREDIT.**



International characterization.



MICROINSURANCE INTERNATIONAL CHARACTERIZATION

Characteristics	LATIN AMERICA	OTHER COUNTRIES
Definition: Common elements	Massive, Inclusive, Reduced coverage, Low distribution/operation costs	
Microinsurance-specialized regulatory frame	Yes, either in the law or secondary regulations	Yes, either in the law or secondary regulations
Minimum Capital	Yes, with a trend to Risk Base	Yes
Per-operation, per-sector specialized companies	Multiple lines and specialized	Multiple lines and specialized
Mandatory for insurance companies	No	Some countries
Product registration required	Yes	
Insured Amount Limit : Personal Insurance	Yes	Yes
Premium Limit: Damages	Yes	Yes
User participation in the cost of the claim or service	No	
Contract documentation, with binding clauses, no exclusions, or previous verifications	Written delivery with some simplifications: <ul style="list-style-type: none"> •Policy and general conditions •Individual certificate and consent •Beneficiary designation 	Simplicity requirements documented using popular language
Lifespan	A) Annual, automatically renewed B) Less than one year: Bound to credits, flows, or paid with social support resources C) Indefinite: Does not require annual renewal	A) Annual B) Max / min
Grace time period	30 days	
Proving element for contract signing.	Policy, certificate or premium payment proof	
Claim and indemnity payments	<ul style="list-style-type: none"> •Max terms: 0, 5, 10, and 15 days •Payment is allowed in either cash or benefits 	
Fiscal benefits	A) No B) Life insurance, 0% VAT	

MICROINSURANCE (MI) REGULATIONS

PERSPECTIVES IDENTIFIED IN THE MEXICAN MARKET	IAIS PERSPECTIVE
MIs ARE DISTRIBUTED THOROUGH ALTERNATE CHANNELS	MI IS A TOTALLY NEW INSURANCE ACTIVITY
NO SPECIFIC CRITERIA EXIST TO ESTABLISH MI REGULATORY ENVIRONMENT	GOVERNED BY A SPECIFIC POOL OF REGULATIONS SUPPORTING MI FUNCTIONS
ADVERSITY TO FISCAL MEASURES	FISCAL INCENTIVES, A CRITICAL FACTOR TO MOTIVATE INSURANCE COMPANIES TO SERVE THE MI MARKET
ADVERSITY TO AUTHORIZING THE OPERATION OF MULTI-LINE INSURANCE COMPANIES	LIFE/NON-LIFE PACKAGES: CLIENTS DEAL WITH ONE SINGLE FRONT AT SALES PONT
THERE IS NO NEED TO ADJUST OR REVISE ANY INSURANCE CORE PRINCIPLE	SOME INSURANCE CORE PRINCIPLES NEED TO BE REVISED/ADJUSTED
CAPITAL REQUIREMENTS ARE APPLIED INDISTINCTLY	RELAXED REQUIREMENTS FOR MUTUALISTS, COOPERATIVES, SPECIALIZED MI SUPPLIERS
SPECIFIC MI FORMATS CAN RESULT IN INCREASED MI COSTS	SPECIFIC MI REPORTS SHOULD EXIST FOR MONITORING, STATISTICS, AND ANALYTICAL PURPOSES
AVOID NON-REGULATED INSURANCE COMPANIES OR INFORMAL SCHEMES	CREATING AWARENESS AOBUT THE DIFFERENCES BETWEEN REGULATED AND NON-REGULATED INSURANCE COMPANIES
A NEW ACCOUNT-BOOKING SYSTEM SHOULD NOT BE AUTHORIZED	ADJUSTING TRADITIONAL ACCOUNTING METHODS



CONCLUSIONS

**Principles for regulations
promoting microinsurance development**

GUIDELINES FOR MICROINSURANCE REGULATIONS

- Domestic market economic, social, and maturity conditions determine –in the long range- the application of principles derived from international experiences.

- Using multilateral body stimulations to finance microinsurance markets.

Development promotion

- The regulatory frame must:
 - Give incentives to microinsurance supply, intermediation and demand.
 - Give incentives to formal insurance mechanisms.
 - Wherever feasible, allow for the creation of cooperatives.
 - Protect highly vulnerable users.
 - Avoid the mandatory participation of companies not willing/not interested in microinsurance.
 - Support the access to assistance programs to promote microinsurance among those groups.

Continued...

GUIDELINES FOR MICROINSURANCE REGULATIONS

Development promotion

...Continued

- Facilitate the use of influence centers.
- Make all actors responsible.
- Give incentives to additional programs protecting the coverage of unpaid balances in microcredits.
- Facilitate the design and placement of products, reducing the cost of transaction.
 - Highly indemnifying.
- Give incentives for retaining coverage, recognizing premium payment capacity, even though subjected to income volatility (in both frequency and amounts.)
- Promoting that fiscal requirements and money laundry regulations facilitate (instead of inhibit) market development.

GUIDELINES FOR MICROINSURANCE REGULATIONS

Clarity

- **The authority must promote extremely clear coverage, looking after consumer interests/rights , at the time of:**
 - **Avoiding regulatory arbitrations.**
 - **Precise definition.**
 - **Coverage limits.**
 - **Price limits.**

GUIDELINES FOR MICROINSURANCE REGULATIONS

Harmony

- No exceptions to regulatory principles/trends.
- Maximum harmonization with legislation/regulations in force for traditional insurance policies.
 - Solvency.
 - Infrastructure.
 - Financial experience.
 - Insurance experience.
 - Corporate government.
 - Inbound control.
 - Integral risk management.



Solvency II

GUIDELINES FOR MICROINSURANCE REGULATIONS

Access ability

- **Remove entrance barriers for:**
 - **Offer actors.**
 - **Simplified product registration.**
 - **No printed documents.**
 - **Intermediaries.**
 - **Traditional agents.**
 - **Certification.**
 - **Non traditional agents.**
 - **Training.**
 - **Potential users.**
 - **Easy buying/use.**

GUIDELINES FOR MICROINSURANCE REGULATIONS

Flexibility

- **Using government assistance structures and mechanisms for microinsurance selling, collecting, and complaint payments.**
- **Facilitating the development of:**
 - **Alternate distribution mechanisms.**
 - **Influence centers.**
 - **Premium collections.**
 - **Remittances.**
 - **Payroll discounts.**
 - **Fractionated payments < 1 month.**
 - **Indemnification payments.**
 - **Parametric insurance.**

GUIDELINES FOR MICROINSURANCE REGULATIONS

Efficiency

They are not small insurances.

- Facilitate product design and placement, reducing transaction costs.
- Simple.
- Attractive.
- Low cost.
- Flexible.
- Easy to manage.
- Adhesion.
- No deductibles, franchises or co-payments.
- No dividends.



**THANK YOU VERY MUCH
FOR YOUR ATTENTION**

Recaredo Arias J.

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ATTACHMENTS

