Report on the Inclusive Insurance Regulatory Landscape in the CEET Region

Klime Poposki, Gorazd Cibej and Kristina Cencic
With support from Hui Lin Chiew and Teresa Pelanda

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Contents

Table of acronyms

A2ii	Access to Insurance Initiative
AZN	Insurance Supervision Agency of Slovenia
CEET	Central Eastern Europe and Transcaucasian Region
CESEE	Central Eastern and South-Eastern Europe
CEE – EU	Central Eastern Europe – EU member countries
EU	European Union
FSAP	Financial Sector Assessment Program
GWP	Gross Written Premium
IAIS	International Association of Insurance Supervisors
ICP	Insurance Core Principles
IMF	International Monetary Fund
MSMEs	Micro, Small & Medium Enterprises
NFIS	National Financial Inclusion Strategy
WB	World Bank

1. INTRODUCTION

The concept of financial inclusion is the process through which society has access to different financial services (credit, savings, insurance, payment and pension services), as well as financial education mechanisms. The objective of financial inclusion is to improve a society's material conditions of well-being (MAPFRE Economics, 2020). In the case of insurance, inclusive insurance can build resilience and support the sustainable growth of households and micro, small & medium enterprises (MSMEs), mobilise investments, promote financial sector development, and contribute to national policy objectives.

Since the 1990s, the microinsurance movement has demonstrated the benefits of insurance for low-income people by exploring new business models for customers in the informal economy who were traditionally excluded from insurance. Over the years, the concept broadened: inclusive insurance includes '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' (IAIS, 2015). Inclusive insurance markets have grown significantly in all regions over the last decade. Many stakeholders now acknowledge the commercial and growth opportunities in inclusive insurance[1]. Insurance supervisors worldwide have rolled out regulatory frameworks and initiatives to support this growth[2].

Compared to Asia, Latin America and Africa, inclusive insurance markets in the Central, Eastern Europe and Transcaucasia (CEET) region are still nascent. Furthermore, aside from CEET countries that are EU members[3], there is still minimal research on the regional insurance protection gap[4]. The Swiss Re Resilience Index (Swiss Re Institute, 2021), among other data, suggests the existence of a protection gap in health, mortality and natural catastrophe risks in at least the following CEET countries: Poland, the Czech Republic, Hungary, Russia and Turkey.

This landmark study on inclusive insurance in the CEET region seeks to better define the current stage of the market and to address potential growth opportunities. Through March and April 2021, the Access to Insurance Initiative (A2ii) and the Insurance Supervision Agency (AZN) of Slovenia jointly conducted a survey among representatives of CEET insurance supervisory authorities. The purpose of the survey was to assess the current status of inclusive insurance regulations and/or initiatives promoting access to insurance in the region. It is hoped that this report, by drawing on the direct perspectives and responses of insurance supervisors in the region, can contribute towards addressing critical challenges and prospects for the development of inclusive insurance in the CEET region.

1 Allianz, for example, estimates that the global inclusive insurance market has the potential to cover up to 3.8 billion people (Hintz, 2016). In a study by the Institute of International Finance (Cheston, et al., 2018), insurers noted that the market opportunity can be attributed to a growing emerging consumer group, notably the rise of the middle class in emerging markets. Another study (Ferenzy, 2016) estimates that less than 20 per cent of the total population in the inclusive insurance segment (about 600 million lives) are currently insured.

2 See the A2ii Inclusive Insurance Regulations Map here: https://www.a2ii.org/en/map

3 The European Commission estimates a large protection gap, or underinsurance, in the European Union: between 65 % and 70 % of total losses are not insured. The highest protection gaps belong to the CEE countries. (European Commission, 2021)

4 The protection gap is 'the difference between total losses and insured losses' (Geneva Association, 2014).

2. CEET REGION MARKET PROFILE

The CEET region consists of 31 jurisdictions (listed in Annex 2), representing different levels of economic development. The majority of jurisdictions, except the European Union countries, are classified as emerging and developing countries and have insurance penetration rates below the world average. Based on the World Bank's income classification (World Development Indicators, 2020), as of 2020, 20 per cent of the CEET region countries are lower-middle-income economies, 40 per cent upper-middle-income economies and 40 per cent high-income economies.

The population within the region amounts to 506 million[5]. Since the 1990s, countries of the CEET region have largely transitioned to market economies with democratic forms of government and now participate in global markets for goods and services. While many of these countries have experienced significant economic growth including a growing financial services sector, most continue to face a large insurance protection gap. The CEET region is also vulnerable to natural disaster risks such as floods, earthquakes, bushfires, winds and drought.

2.1 Insurance landscape

Early studies of the insurance markets in Central Eastern and South-Eastern Europe (CESEE) mostly indicate a monopolistic, uncompetitive and relatively young market. Over the last three decades, the privatisation of the insurance sector, liberalisation and deregulation of financial services, and alignment with the International Association of Insurance Supervisors (IAIS) Insurance Core Principles (ICPs) paved the way to reform of the insurance industry. The majority of CEET countries are members of the EU or are in the accession process, which means that their jurisdictions either align or will eventually align with EU insurance directives.

Other drivers of insurance market growth include favourable economic developments, monetary and financial stability, improved living conditions, increased risk and insurance awareness, and the entrance of foreign-owned insurance companies. Establishing independent and effective insurance supervisory authorities equipped with sufficient resources, including insurance-trained professionals and actuaries, was also crucial.

One key characteristic of this vast region is the significant cross-country diversity. The CEET region is highly heterogeneous in terms of politics, economy and financial systems. Insurance markets differ significantly in size, concentration and level of maturity. The following graphs show the gross written premium volumes (GWP), insurance penetration (premiums as a percentage of GDP) and insurance density (premiums per capita) for life and non-life business for each jurisdiction. Jurisdictions are clustered[6] into three groups:

5 https://www.worldometers.info/world-population/

6 In Annex 2, there is a description for each country's clustering. The main basis for the clustering is the differences in insurance penetration and density rates among the CEET countries. EU member states have higher insurance penetration compared to the Western Balkans (SEE) countries, which are in the process of joining the EU, but at different accession stages. The majority of Eastern European (EE) countries are experiencing lower insurance growth and no clear political goals for EU accession.

- EU member countries (CEE-EU)
- Eastern European Countries (EE)
- Western Balkan Countries (SEE)

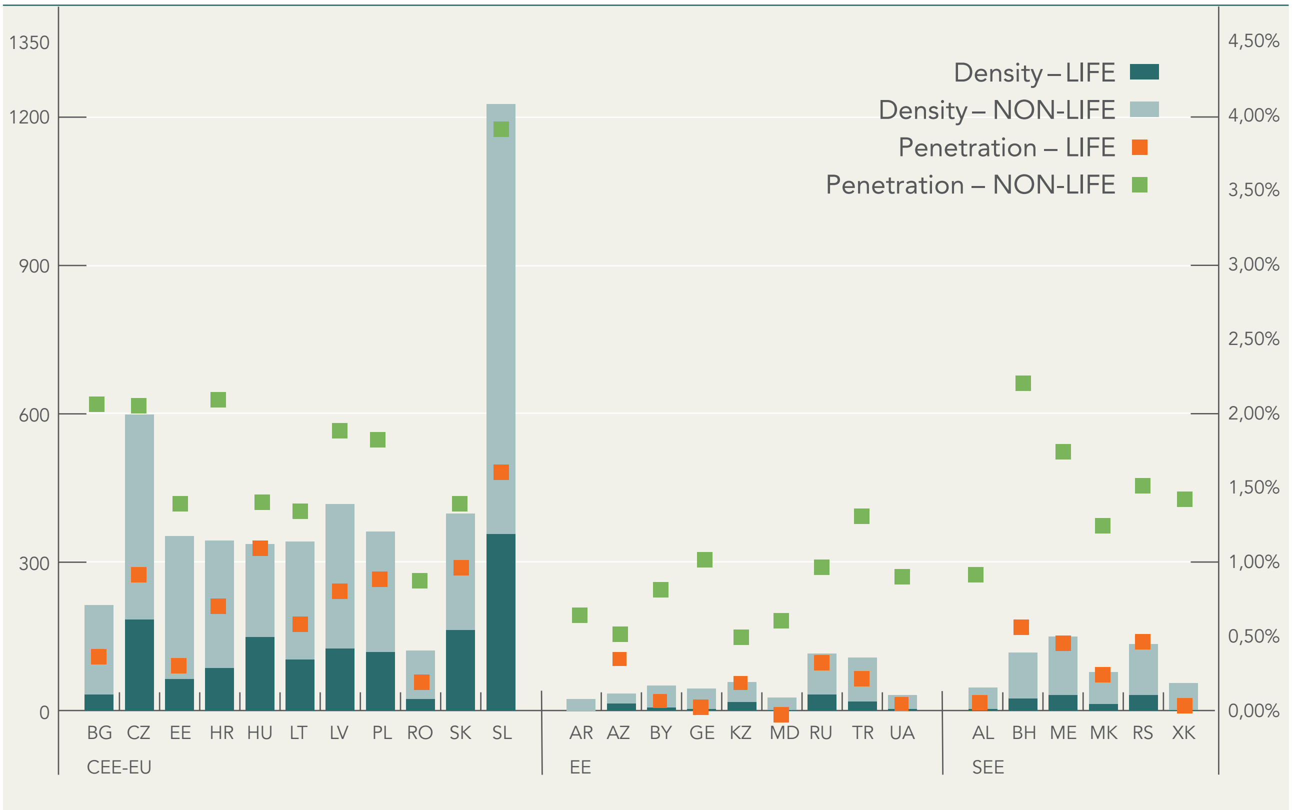


Figure 1: **Insurance Density and Insurance Penetration per Jurisdiction, Life & Non-Life, 2020.** Source: X Primm database (2020)

The CEET insurance industry is dominated by the non-life sector. Life insurance plays a less significant role and is still fairly undeveloped, except a few CEE-EU jurisdictions: Slovenia, the Czech Republic, Slovakia, Poland, and Hungary have a penetration rate of over 1 per cent and average spending of more than EUR 150 per inhabitant. Life insurance suffers from a general lack of awareness, inadequate social protection systems and unfavourable regulatory frameworks, low living standards and underdeveloped domestic financial markets. Motor insurance undoubtedly remains the main business segment in CEET, accounting for 53.4 per cent of the non-life insurance premiums. The top five markets in the region together account for about three-quarters of the regional non-life business. This is also reflected in motor business specifically, where total motor GWP of the top five markets account for 72.7 per cent of the total motor GWP in the region.

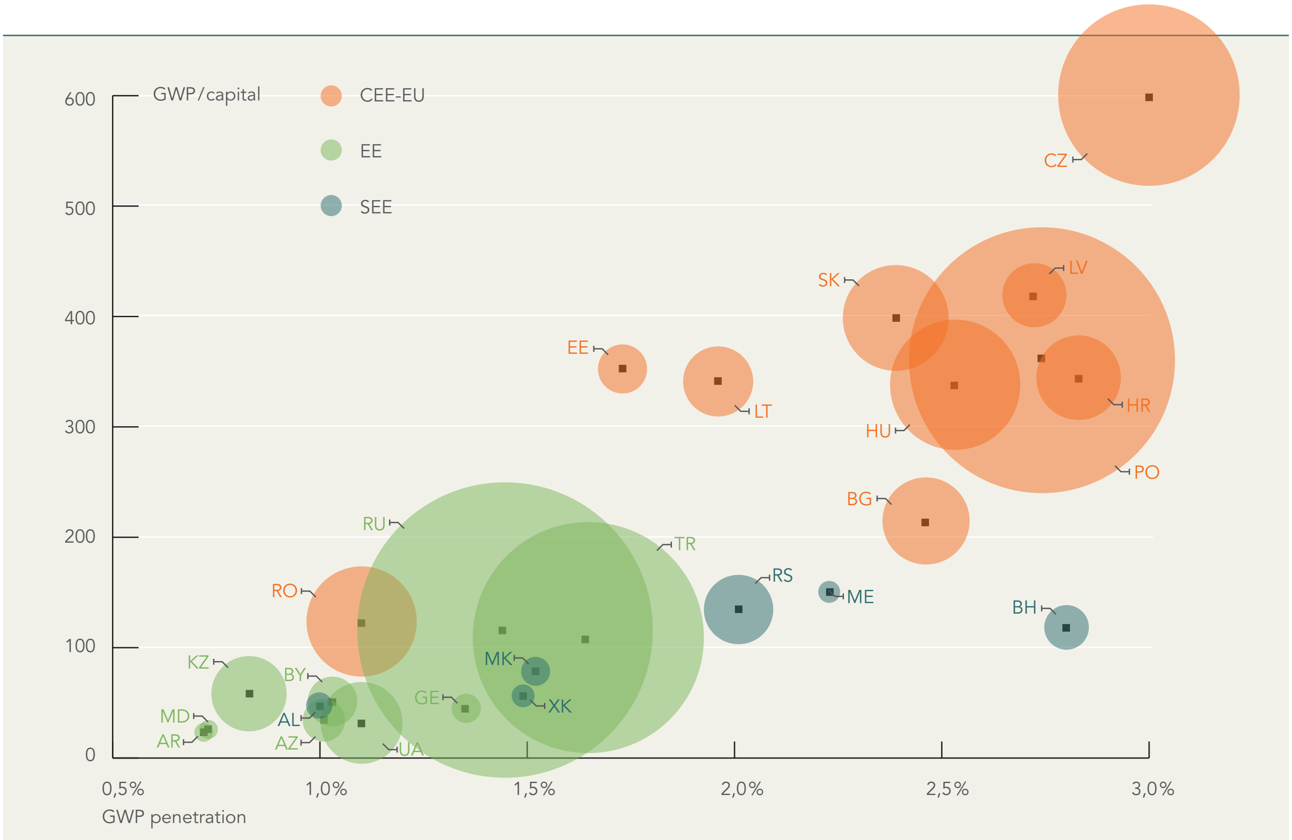


Figure 2: **Total Insurance Density, Insurance Penetration and GWP per Jurisdiction, 2020**[7]. Source: X Primm database (2020)

As illustrated by the size of the bubbles, Russia, Turkey, Poland and the Czech Republic are by far the largest markets. The insurance markets in CEE-EU are already much more developed than insurance markets in Eastern Europe. The insurance markets of the Western Balkans (SEE) are mostly in the middle. Slovenia, not included in the graph[8], is an outlier in the CEET region, showing significantly higher insurance market indicators.

Based on the CEET Distribution Report 2020 (Ghetu, Cibej and Poposki, 2020)[9], 2019 GWP data show that insurance agents (including ancillary agents) intermediated 40 per cent, the largest share of the regional GWP volume. Insurance brokers and 'other channels', consisting largely of insurers' own sales networks, hold comparable shares, of about 20 per cent and 23 per cent respectively. Bancassurance distribution's weight was about 10.6 per cent, while internet (on-line) sales accounted for only 2 per cent of the total intermediated premiums. However, one should keep in mind that online sales are in many cases reported under other categories, for instance where the internet sales platforms are owned and managed by insurers or insurance brokers themselves.

7 The bubbles reflect the total gross written premiums of the life and non-life segments in each country.

8 Slovenia is excluded from the Figure 2, being the country with the highest insurance penetration rate at 5.22 per cent and density rate of EUR 1,217 compared to other CEET countries.

9 See: http://xprimmpublications.com/books/hwee/#p=1

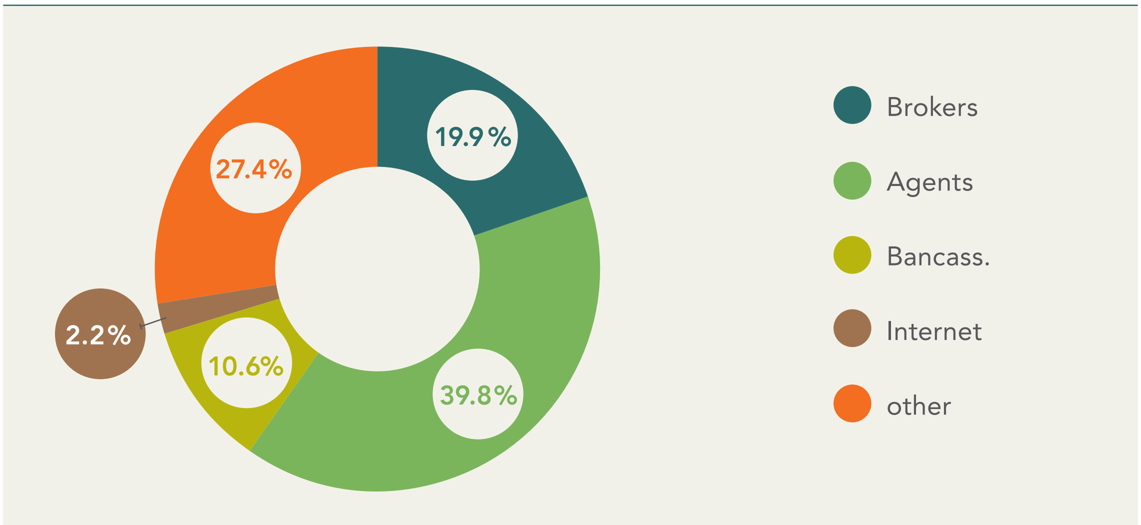


Figure 3: **Total CEE GWP, by Distribution Channel, 2019 (%)**

2.2. Supervisory authorities

There are notable differences among CEET jurisdictions in terms of how supervisory authorities are structured. Intra-regional differences reflect a multitude of factors: historical evolution, the structure of the financial system, political structure and traditions, and the size of the country and the financial sector. The policy recommendations of the International Monetary Fund (IMF) and the World Bank (WB) under the Financial Sector Assessment Program (FSAP) have further influenced this aspect.

There is a wide range of supervisory models. In this paper, they are mapped out as follows (Figure 4):

- **Integrated institutions.** These cover all the three main financial sectors – banking, insurance and pension, and securities (full sectoral integration). Some of these fully integrated supervisory authorities are located in the central bank[10], while others are a separate financial supervisory authority, set up as autonomous public institutions[11].

- **Partially integrated institutions.** These cover only two of these sectors, usually only insurance and securities. They may also exist as an autonomous public institution[12], or under the Ministry of Finance[13] .

- **Non-integrated institutions.** These are insurance supervisory authorities that supervise only insurance[14].

10 Armenia, Czech, Hungary, Kazakhstan, Kosovo, Lithuania, Russia, Serbia, Slovakia, Ukraine.

11 Poland – Financial Supervision Authority; Estonia – Finantsinspektsioon; Latvia - Financial and capital market commission.

12 Albania – Financial Supervisory Authority; Bulgaria – Financial Supervision Commission, Croatia – Financial Services Supervisory Agency; Moldova – National Commission for Financial Supervision; Romania – The Financial Supervisory Authority.

13 Azerbaijan and Belarus.

14 In the case of Bosnia and Herzegovina, Georgia, Macedonia, Montenegro, Slovenia and Turkey – Insurance Supervisory Authorities exists as a single autonomous public institution.

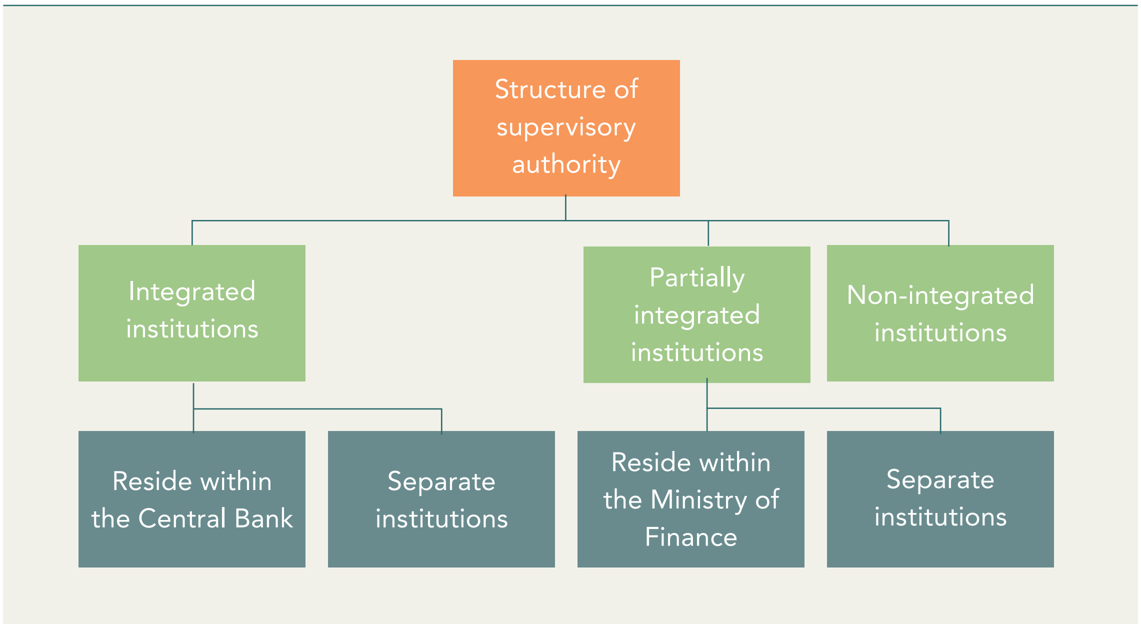


Figure 4: **Structure of Insurance Supervisory Authorities**

Most commonly, financial supervision is performed by integrated institutions (13 jurisdictions). Out of these, 10 supervisors reside within the central bank. Seven supervisors are partially integrated supervisors, out of which two are located within the Ministry of Finance. Six jurisdictions have supervisors that are non-integrated institutions. Across all categories of integration, the majority (14 supervisors) are autonomous public institutions, meaning not residing within the central bank or ministry. So far none of the countries has a twin-peaks model, which is where two different agencies are in charge of prudential oversight and conduct of business respectively.

A 2019 study[15] revealed that 75 per cent of the interviewed authorities have regulatory and supervisory powers, while 25 per cent have only supervisory powers. This indicates that the implementation of IAIS standards and guidance is, to a large extent, in the hands of the supervisors. There is no authority with only regulatory powers. All authorities, except one (95 per cent), are responsible for prudential supervision, while 90 per cent are also responsible for market conduct supervision. In addition, 55 per cent are also responsible for macro-prudential supervision, 20 per cent of the authorities participate in macro-prudential supervision as a member of a joint financial stability committee, while 25 per cent of the authorities are not responsible for macro-prudential supervision.

Eighty-five per cent of the authorities supervise insurance sales channels, while others stated that they supervise only insurance brokers but not insurance agents. In 65 per cent of the cases, authorities supervise InsurTech or FinTech companies[16].

15 See the 2019 Report 'CEET Region – Survey of the Supervisory Landscape', prepared by the AZN Slovenia in its role as the regional coordinator for the CEET region under the umbrella of the IAIS.

16 Supervisory authorities from the following countries have a mandate to supervise the InsurTech and FinTech companies: Albania, Armenia, Bulgaria, Czech Republic, Estonia, Hungary, Israel, Kazakhstan, Lithuania, Serbia and Turkey.

3. SCOPE AND METHODOLOGY OF THE SURVEY

3.1. Scope

The A2ii, implementation partner of the IAIS on inclusive insurance, commissioned this survey, which was distributed among representatives of insurance supervisory authorities in the CEET region with the support of AZN Slovenia. The purpose of the survey is to assess the current status of inclusive insurance regulations and/or initiatives promoting access to insurance in the CEET region.

The survey took place in March and April 2021, where 32 authorities from 31 jurisdictions[17] were invited to respond. This includes a few non-members of the IAIS and a few jurisdictions outside the official CEET region (Uzbekistan, Turkmenistan, Tajikistan, and Kyrgyzstan). Twenty-four authorities completed the survey, all of them officially classified as belonging to the CEET region (See Annex 2).

The questionnaire consists of four sets of questions (Annex 1) covering the following aspects:

1. The existence of inclusive insurance legislations and products in CEET jurisdictions;
2. An assessment of other supportive legislations that can enhance access to insurance;
3. Current national policy approaches to increase access to insurance for low-income and low middle-income populations; and
4. Supervisory capacity building needs in each jurisdiction.

3.2. Definitions used

Microinsurance/inclusive insurance regulations are dedicated frameworks with a definition of microinsurance and/or inclusive insurance or its equivalent, whether by way of a single piece of legislation or a combination of law and regulatory issuances.

Supportive legislation is defined as legislation that can enhance access to insurance products, such as the use of remote means, digital models, e-signatures in insurance operations, mobile insurance, regulatory sandboxes, as well as legal/regulatory recognition of index insurance, insurance for MSMEs and takaful insurance.

17 For Kazakhstan, the survey was sent to both the National Bank of Kazakhstan and the Astana Financial Services Authority. See Annex 2 for full list.

4. RESULTS AND FINDINGS OF THE INCLUSIVE INSURANCE SURVEY

None of the 24 respondent jurisdictions indicated having inclusive insurance or microinsurance products that are formally defined under a regulatory framework, nor do they mention that such products are currently a priority. However, there are some products present that, due to their product features and target groups, can be considered inclusive. Two jurisdictions are currently planning to create a strategy on inclusive insurance. One jurisdiction has tried to do so in the past but is currently impeded by financial and technical constraints. The authors note that various supply, demand and regulatory conditions currently limit the growth of inclusive insurance markets in the region. These are further discussed in Section 5.

4.1 Inclusive insurance legislation

Regulation is a key instrument for supporting the growth of inclusive insurance markets. On the one hand, consumer protection needs to be adequate for a customer base that is new to insurance, have lower levels of education or insurance awareness, and at the same time, are more financially vulnerable. On the other hand, insurers need a regulatory environment that provides adequate flexibility and opportunities to be commercially sustainable and introduce innovations in product design, coverage and service delivery. To make existing markets more inclusive, supervisors around the world have introduced inclusive insurance regulatory frameworks.

To date, none of the respondent jurisdictions has implemented microinsurance or inclusive insurance legislations or developed a definition of microinsurance or inclusive insurance.

4.2 Inclusive insurance product lines

Respondents were not provided with a strict definition of 'inclusive insurance' in the survey questionnaire to enable the survey to capture potentially varying definitions or concepts. 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' (IAIS, 2015). Looking at global experience, inclusive insurance products tend to be simplified and streamlined, aiming to be easy to understand, enrol, and claim, while cutting administrative costs. Providers tend to offer, or some supervisors require, shorter claims timelines compared to traditional products, with specific and minimal documentation requirements. Premiums are generally set at levels that are considered affordable for the target groups.

In Africa, Asia and Latin America, inclusive insurance products continue to be dominated by life[18] and credit life, followed by personal accident and funeral policies. Hospital cash prod-

18 Temporary term life insurance is currently dominant in the microinsurance market.

ucts continue to be the main health insurance[19] offering, with little progress made in offering medical reimbursement or comprehensive health products. Agriculture[20] products have grown dramatically in some countries but contribute a small share overall (Microinsurance Network, 2020).

Although no respondent has inclusive insurance legislation or a definition of inclusive insurance in place, some products present are considered inclusive. 11 respondents noted at least one type of listed inclusive or microinsurance product in their market. Interestingly, the most common types of inclusive insurance/microinsurance among CEET countries are agricultural and climate risk insurance. Property insurance targeted at the low-income market is also being sold in a few jurisdictions, while other types of inclusive insurance are being sold in very few markets (see Table 1).

Type of inclusive insurance/microinsurance	No. of jurisdictions in CEET that have this insurance
Agricultural/climate risk insurance (including index insurance)	8
Property insurance	5
Health insurance	3
Personal accident insurance	3
Life insurance	2
Credit life insurance	2
Funeral expenses insurance	1

Table 1: Type of Inclusive Insurance/Microinsurance and Number of Jurisdictions

19 Health microinsurance is one of the insurance products with the highest demand from low-income families, although it continues to have the lowest levels of penetration and highest levels of difficulty in implementation. The most common modalities are those that offer daily compensation in case of hospitalisation and/or single payments in the event the policyholder is diagnosed with a serious illness.

20 Agricultural microinsurance has evolved considerably over the last two decades, due to two different elements: (i) greater government participation and (ii) the use of indices to define coverage, also known as index or parametric insurance.

4.3 National financial inclusion and inclusive insurance strategies

Inclusive financial services such as savings, lending or payment services receive significant attention in national strategies while inclusive insurance products are often not sufficiently prioritised. Several countries have started integrating the topic of insurance into their NFIS. An NFIS is an integral multi-stakeholder initiative to support financial policymakers, regulators, and other public and private stakeholders to increase access to quality financial services, including insurance for underserved populations and regions.

Developing an NFIS is an important step for inclusive insurance. The topic of insurance has only recently become an integral part of NFIS. In the CEET region, ten respondents out of 24 have an NFIS developed, while one authority is in the process of preparing one. The ten respondents include (see Annex 3):

- Seven authorities who have a standalone NFIS (Belarus, Bulgaria, Georgia, Kazakhstan, Ukraine, Russia and Slovakia);
- Three authorities (Albania, Poland and Kosovo) who included an NFIS in other strategic documents.

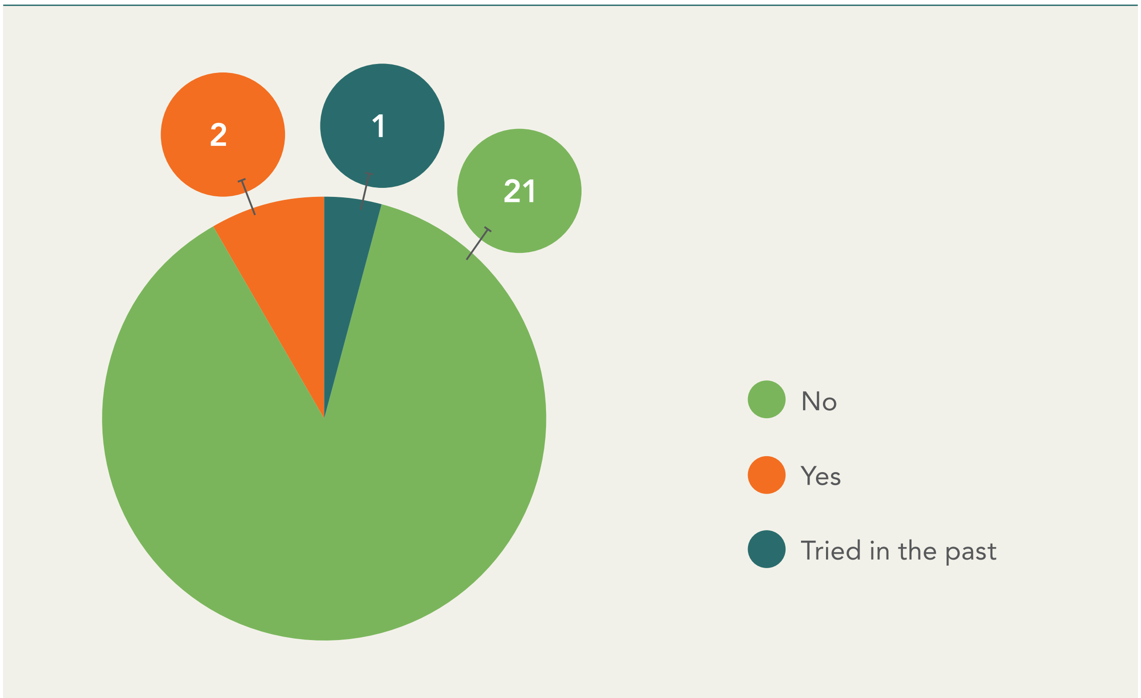


Figure 5: Plans to create a strategy or action plan in the mid or short term to develop inclusive insurance or microinsurance

On inclusive insurance strategies specifically, only three jurisdictions are planning to have, or have tried to develop, a strategy for inclusive insurance or microinsurance (see Figure 5). In jurisdictions with no inclusive insurance products, most supervisors are not planning to create a strategy or an action plan in the mid or short term to develop inclusive insurance.

- The Albanian Financial Supervisory Authority attempted to develop such products in Albania through their participation in the A2ii Inclusive Insurance Innovation Lab but needs further technical and financial support to continue their work[21].
- The National Bank of Kazakhstan is working to encourage insurance companies to develop standard products (standardised policy contracts) that are easy for customers to understand and meet the needs of the policyholder, to ensure effective and equal access of all segments of the population to financial services and increasing financial inclusion.[22]
- The Central Bank of Lithuania is open to discussions on any reasonable solutions (including inclusive insurance or microinsurance), which could help the Lithuanian insurance market develop.

4.4 Studies on the inclusive insurance market

Studies on the inclusive insurance market, whether by the supervisor, industry stakeholders or international organisations can be an important catalyst to inclusive insurance development. This can help inform inclusive insurance regulatory development and policymaking, while also providing data to insurers who typically do not have much information on low-income segments and their needs. In eight CEET jurisdictions, the respondent authority is aware of research on the microinsurance or inclusive insurance market conducted by public and private sector stakeholders or international organisations. These studies are listed in Annex 4.

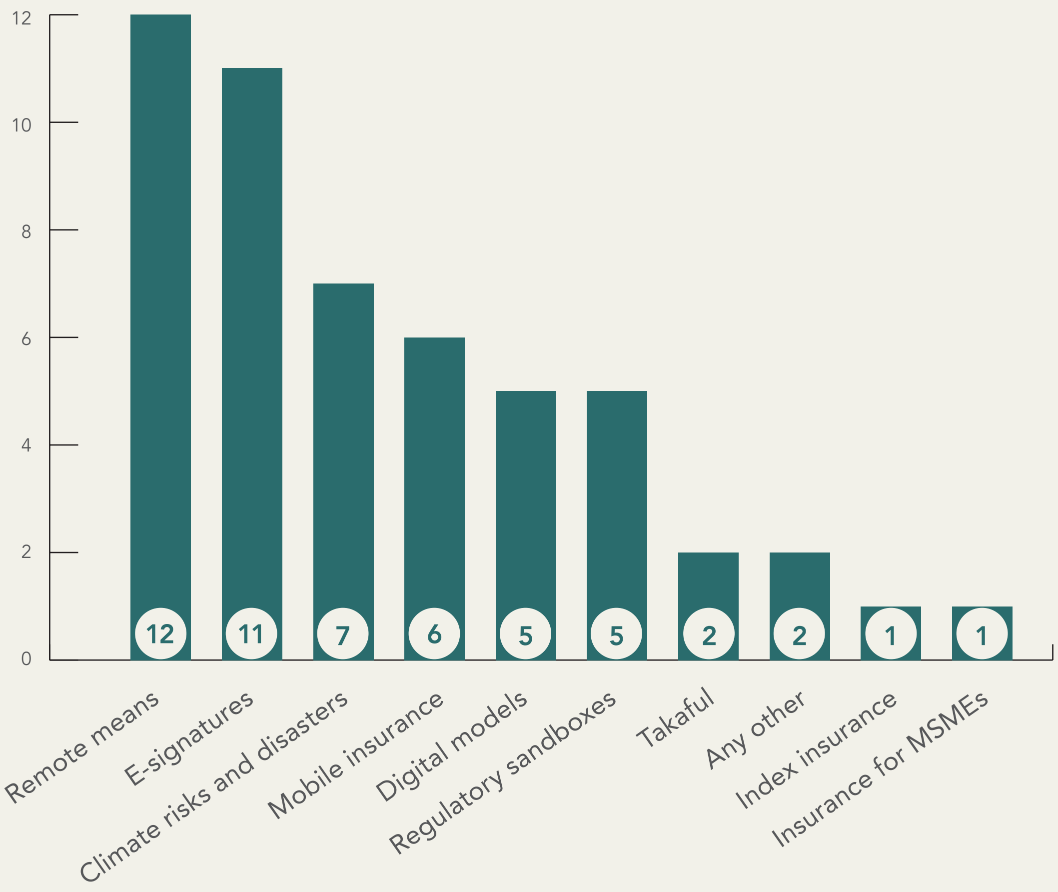
4.5 Other supportive regulatory measures

CEET jurisdictions have other supportive legislation to different extents, as set out in Figure 6. It is worth noting that five out of the top six most common types of supportive legislation are supportive of digital insurance business models. Nine authorities stated that they currently have no other supportive legislation in place.

Beyond issuing regulations, respondents also noted other regulatory initiatives focused on enabling innovation. One jurisdiction highlighted its participation in the A2ii Inclusive Insurance Innovation Lab. Others noted encouraging the use of remote means for taking out insurance contracts (online selling), the establishment of a FinTech contact point and establishing an innovative regulatory sandbox. One noted participating in new innovative projects, such as a 'Pilot Dashboard on Insurance Protection Gap for Natural Catastrophes'.

21 See the final report of the 2017-2018 A2ii Inclusive Insurance Innovation Lab here: https://a2ii.org/en/knowledge-center/inclusive-insurance-innovation-lab/inclusive-insurance-innovation-lab-20182019-final-report

22 The Concept of Increasing Financial Literacy for 2020 – 2024, approved by the Government of the Republic of Kazakhstan dated May 30, 2020 No. 338



- Twelve allow the use of remote means;
- Eleven authorities allow e-signatures in insurance operations;
- Seven supported the promotion of insurance against climate risks and disasters;
- Six allow mobile insurance;
- Five have supportive legislation on digital models;
- Five introduced regulatory sandboxes;
- One created a regulatory framework for recognition of index insurance;
- One supported the designing of insurance for MSMEs;
- Two declared supportive legislation on takaful insurance: and
- Two have legislation on 'Other' (FinTech, InsurTech, law regarding mutual insurance companies[23].

Figure 6: Number of Jurisdictions that have Supportive Legislation in Place

23 Romania: (i) Law no. 71/2019 regarding mutual insurance companies (ii) InsurTech Hub and Fintech Hub, innovation hubs launched by ASF in order to set up the institutional framework for dialogue with companies that develop innovative solutions in the FinTech area. ASF is aiming to support in this way the development of modern technologies in the financial market, while maintaining the level of trust and adequate protection for the consumers. Ukraine: (i) the majority of insurance companies (insurance intermediaries) provide their services online, particularly through their own mobile apps (e.g. in medical insurance and life insurance) or through banking apps in cooperation with banks.

4.6 Risks faced by the low-income population

The authorities were asked to identify the most pressing risks for the low-income and low middle-income population segments in their jurisdiction. The responses are arranged below from the most to least important:

- natural catastrophe risk in relation to the loss of property, loss of income, death accident, health disorder
- unemployment
- financial education
- property risk
- healthcare and disease risk
- attitudes/awareness
- insufficiency information on coverage
- inaccessibility of life insurance products
- risk of overburdening with debt
- endowment insurance

Two authorities have in the past conducted a study on the willingness and ability of the low- and middle-income segments in their jurisdiction to pay for insurance[24]. One authority intends to conduct a demand survey in the near future, while two authorities mentioned they will consider conducting such a survey in the future.

4.7 Supervisory capacity building needs

In the last part of the survey, authorities were asked to point out their needs in terms of supervisory capacity building. The answers fall into the following categories, arranged from the most to least important:

- Supervisory practices
    - Implementation of risk-based supervision
    - Development of existing and creating new supervisory tools

24 One set of survey results are confidential, but part of the Bank of Russia study is available here: http://www.cbr.ru/Content/Document/File/47548/rev_fin_20180907_e.pdf

  - Data collection and processing
  - Thematic supervision of life insurance, reinsurance, catastrophe insurance

- Prudential supervision (introduction of Solvency II, IFRS 9 and 17, recovery and resolution)
- Market conduct and consumer protection (focusing on product governance)
- The updating and modernising of legislation (changes to current legislation, implementation of Solvency II regime or a similar regime, or implementation of new national legislation)
- The impact of pandemic risks
- Regulation and supervision of new technologies (InsurTech, SupTech, online insurance, and regulatory sandbox) and arising risks such as cyber risk
- Regulation and supervision of microinsurance

5. DISCUSSION

Based on the survey findings, several observations can be made:

Overall there is significant room for growth in the CEET inclusive insurance market. The Microinsurance Network suggests that low penetration numbers point towards a market opportunity: in a saturated global insurance sector, insurers increasingly need to explore new markets. Inclusive insurance presents a significant opportunity, especially with increasing success stories in other regions that CEET practitioners can draw lessons from. There are also reasons to be optimistic about the development of inclusive insurance in the CEET region: the sheer size of the potential market and the fact that rising incomes mean a large segment of the population can afford the relevant premiums.

However, demand is challenging due to several factors. Low income and affordability are perhaps the most obvious barriers. Furthermore, low-income households and small businesses might have seasonal or irregular patterns of earnings and expenses, which would make it difficult for them to pay annual insurance premiums in advance. The low-income population in many CEET countries has long been able to access social welfare payments from their governments and is largely unfamiliar with insurance products.

Data on the inclusive insurance market is lacking. Not all jurisdictions have data on inclusive insurance, even if present in their market. For supervisors to track gaps and growth opportunities in inclusive insurance, and set regulatory measures and policy targets, it is important to have good data. Good demand data is also important for business and product development in the insurance industry. One reason global insurers have not considered the low-income segment as a viable market is the limited available data and understanding of the risks associated with this segment, which complicates premium calculations.

The insurance sector is still largely focused on wealthy and corporate segments. Accordingly, their business models, including products, cost structures, geographical presence, distribution networks and servicing infrastructure, have been built with this focus. Distribution, underwriting, administration, and claims handling practices built for dealing with large insurance policies might be unduly burdensome or uneconomic if applied to small policies. A key reason the insurers have tended not to consider low-income segments attractive is that individual premium sizes were perceived as too low given per-policy fixed costs. Distribution networks are also traditionally incentivised via remuneration structures to focus on larger premium products. Even if commission rates are high, premiums per policy are much smaller in inclusive insurance, resulting in lower earnings for agents.

There is clear room to draw on global experience and actively bring innovation into the market. Global experience has demonstrated how a diverse range of intermediaries can be leveraged, including traditional brokers/agents, bancassurance, microfinance institutions (MFIs), non-government institutions, direct marketing (e.g. call centres), direct mail (e.g. mail lists purchased from other mass-service providers), alternative direct sales forces (e.g. distribution networks of telecom companies) and technology-based distribution (e.g. mobile phones and internet). Delivery could also be enhanced via community-based schemes or groups, credit unions, as well as innovative mass-market distributors such as retail shops, post office outlets, religious associations or trade unions.

The increasing focus of the region on innovation, digitalisation and fintech is promising. Five out of the top six most common types of supportive legislation (section 4.5) are supportive of digital insurance business models. A few jurisdictions also indicated regulatory initiatives such as sandboxes and supporting digital selling. Even if not initially focused on inclusive insurance customers, the presence of new technologies in the market can bring about positive spillover effects. For example, the use of mobile insurance, digital transaction platforms or e-signatures can unlock opportunities to reach excluded and new segments of customers. Supervisors can see how the deployment of new technologies can be expanded or replicated to the benefit of low-income groups. While inclusive insurance products are still not prevalent, such supporting legislation will clear the path for when these products enter the market.

6. CONCLUSION

Overall, inclusive insurance is still a nascent business in the CEET region and is not currently a top priority for most insurance supervisors in the area. Only three supervisors from those who responded to the survey are actively looking into inclusive insurance. However, all countries are actively encouraging innovation and digitalisation in the insurance sector, which can contribute to promoting the appeal, affordability, and accessibility of insurance products. There is also a commitment among all regulators to promote financial and insurance literacy. The results of various empirical studies demonstrate that the increase of financial literacy is a prerequisite to developing insurance markets.

Key to enabling inclusive insurance markets to grow in the CEET region are policy actions on the supply and demand side. In this respect, there is room for improvement in public-private collaboration mechanisms between governments and the insurance industry, in order to create favourable conditions. The insurance industry needs to create new business models designed towards making insurance inclusive, create more innovative products, and rely on new distribution mechanisms. Finally, regulatory adjustments can provide incentives for innovation and for the use of distribution mechanisms that reduce transaction costs and, importantly, create favourable inclusive insurance regulatory frameworks based on proportionality.

ANNEX 1: QUESTIONNAIRE

0. Respondent Details

Name:

Email address:

Authority:

Country:

1. Inclusive Insurance/Microinsurance

1.1 Are there any microinsurance or inclusive insurance legislations in your jurisdiction?
We consider microinsurance/inclusive insurance regulation to be dedicated frameworks with a definition of microinsurance and/or inclusive insurance or its equivalent, whether by way of a single piece of legislation or combination of law and regulatory issuances.
( ) yes
( ) no

1.2 If yes, please indicate what kind of regulation governs inclusive insurance in your jurisdiction (e.g. law, specific resolution, circular, etc.) and, if possible, share the links or forward the set of legislation by email

1.3 Does your jurisdiction have a definition of microinsurance or inclusive insurance in legislation, or a non-legally binding document such as a communiqué, an announcement or notification, guidelines, discussion papers or a development plan?
( ) yes, please provide the definition and link to source document
( ) no

1.4 Are there any microinsurance or inclusive insurance products in your country or jurisdiction? If yes, please indicate what product lines?
( ) funeral expenses
( ) life
( ) credit life
( ) property
( ) health
( ) personal accident
( ) agricultural /climate (including index insurance)
( ) takaful
( ) other, please state:

1.5 If not, please indicate if you are planning to create a strategy or an action plan in the mid/short term to develop inclusive insurance or microinsurance?

1.6 Are there studies and/or research on the microinsurance or inclusive insurance market conducted in your jurisdiction by the public and private sectors or/and international organizations? If so, could you share or forward these documents and data (reports, studies, others)?

1.7 Does your jurisdiction have a Financial Inclusion Strategy? If yes, please share the link or document

2. Other supportive regulations

2.1 Are there any other supportive legislation in your country or jurisdiction?
As supportive legislation we consider regulations making insurance more accessible and inclusive, by allowing and promoting innovation, and helping to close the protection gap, such as:
( ) use of remote means…
( ) digital models…
( ) e-signatures in insurance operations…
( ) mobile insurance…
( ) regulatory sandboxes…
( ) insurance against climate risks and disasters…
( ) legal and/or regulatory recognition of index insurance…
( ) insurance for MSMEs…
( ) takaful insurance
( ) any other innovations and trends that make insurance more accessible in your jurisdiction? …

2.2 If there are no such regulation/initiatives in your jurisdiction yet, are you planning to take steps to encourage access to insurance/uptake? If so, which steps have been taken so far?

3. What are the most pressing risks for the low-income and low middle income population in your jurisdiction?

3.1 Have you ever conducted a market survey to analyses the needs of the low- and middle-income classes in your jurisdiction and if so, please include the survey conducted?

3.2 If not, do you intend to conduct a market survey in the near future?

3.3 Do you have any information about the WTP and ATP of the low- and middle-income classes in your jurisdiction (WTP = WILLINGNESS TO PAY and ATP = ABILITY TO PAY)?

4. What are the most relevant topics for supervisory capacity building in your jurisdiction?

5. If you have any further comments you wish to add, please specify below.

ANNEX 2: RESPONDENT JURISDICTION DETAILS

Country	Cluster	Organization	Web	IAIS member	EU member
Albania	SEE	Albanian Financial Supervisory Authority	https://amf.gov.al	Yes	Candidate country
Armenia	EE	Central Bank of Armenia	https://www.cba.am/EN/SitePages/lalaws.aspx	Yes	No
Azerbaijan	EE	Ministry of Finance, Republic of Azerbaijan	http://www.maliyye.gov.az/en	Yes (The Central Bank of the Republic of Azerbaijan, https://www.cbar.az/)	No
Belarus	EE	The Ministry of Finance of the Republic of Belarus	http://www.minfin.gov.by/	Yes	No
Bosnia and Herzegovina	SEE	Insurance Agency Of Republic Of Srpska	http://www.azors.rs.ba/azors/eng/index.html	Yes	No
Bulgaria	CEE-EU	Financial Supervision Commission	https://www.fsc.bg/bg/	Yes	Yes
Croatia	CEE-EU	Croatian Financial Services Supervisory Agency	https://www.hanfa.hr/	Yes	Yes
Czech Republic	CEE-EU	Czech National Bank	https://www.cnb.cz/cs/	Yes	Yes
Estonia	CEE-EU	Finantsinspektsioon	https://www.fi.ee/et	Yes	Yes
Georgia	EE	Supervision Services of Georgia	http://www.insurance.gov.ge/	Yes	No
Hungary	CEE-EU	The Central Bank of Hungary	https://www.mnb.hu/web/en/supervision	Yes	Yes
Kazakhstan	EE	National Bank Of Kazakhstan	https://www.nationalbank.kz	Yes	No
Kazakhstan	EE	Astana Financial Services Authority	https://afsa.aifc.kz/	Yes	No
Kosovo	SEE	Central Bank of The Republic of Kosovo	https://bqk-kos.org/	Yes	No

Country	Cluster	Organization	Web	IAIS member	EU member
Latvia	CEE-EU	Financial And Capital Market Commission	https://www.fktk.lv/	Yes	Yes
Lithuania	CEE-EU	Central Bank of Lithuania	https://www.lb.lt/	Yes	Yes
Macedonia	SEE	Insurance Supervision Agency	https://aso.mk/	Yes	Candidate country
Moldova	EE	National Commission for Financial Supervision	https://www.cnpf.md	No	No
Montenegro	SEE	Insurance Supervision Agency	http://www.ano.me/	Yes	Candidate country with open negotiations
Poland	CEE-EU	Knf-Polish Financial Supervision Authority	https://www.knf.gov.pl/	Yes	Yes
Romania	CEE-EU	The Financial Supervisory Authority (Asf)	https://asfromania.ro/	Yes	Yes
Russia	EE	The Central Bank of Russia	http://www.cbr.ru/	Yes	No
Serbia	SEE	National Bank Of Serbia	https://nbs.rs/sr_RS/indeks/	Yes	Candidate country with open negotiations
Slovakia	CEE-EU	Narodna Banka Slovenska	https://www.nbs.sk/sk/titulna-stranka	Yes	Yes
Slovenia	CEE-EU	Insurance Supervsion Agency	https://www.a-zn.si/	Yes	Yes
Turkey	EE	Insurance and Private Pension Regulation and Supervision Agency of Turkey	https://www.seddk.gov.tr/	Yes	Candidate country
Ukraine	EE	National Bank of Ukraine	https://bank.gov.ua/en/	No	No

ANNEX 3: FINANCIAL INCLUSION STRATEGY DOCUMENTS

Authority	Jurisdiction	NFIS
Financial Supervision Commission	Bulgaria	https://www.fsc.bg/en/fintech/fintech-monitoring-strategy/.
Supervision Services of Georgia	Georgia	https://www.nbg.gov.ge/index.php?m=340&newsid=3679&lng=eng
Agency for Regulation and Development of the Financial Market of the Republic of Kazakhstan	Kazakhstan	http://adilet.zan.kz/rus/docs/P2000000338#z12
National Bank of Ukraine	Ukraine	https://bank.gov.ua/en/about/develop-strategy/fintech2025
The Central Bank of Russia	Russia	http://www.cbr.ru/Content/Document/File/84497/str_30032018.pdf
The Ministry of Finance of the Republic of Belarus	Belarus	http://www.government.by/upload/docs/file2635c85fcdcb1ca5.PDF http://minfin.gov.by/upload/bp/act/postsm_120320_143.pdf
Narodna Banka Slovenska	Slovakia	https://www.nbs.sk/_img/Documents/_TS/191107/final_nbs_strategiaFinGram_en.pdf

Other strategic documents where the financial inclusion strategy is included:

Authority	Jurisdiction	Document
Albanian Financial Supervisory Authority	Albania	https://amf.gov.al/pdf/publikime/Strategy%202018-2022.pdf
KNF-Polish Financial Supervision Authority	Poland	https://www.gov.pl/web/finanse/strategia-rozwoju-rynku-kapitalowego
Central Bank of the Republic of Kosovo	Kosovo	At the high level International Conference, organized by CBK in Pristina, with the topic "Risks and Opportunities in a Dynamic Financial Sector - Development Perspective", respectively in the 3rd session, it discussed about financial inclusion in the digital era, policy measures to be taken in the regional context to advance the financial inclusion agenda and to maintain financial stability. In addition, during this year, the Kosovo Ministry of Education has officially adopted into its curriculum a narrative series (produced by Financial Literacy Centre) established by Central Bank of Kosovo to teach financial literacy to school-aged children. The materials represent a major component of the FLC's strategy to promote responsible financial practices by enhancing widespread financial education.

ANNEX 4: STUDIES ON INCLUSIVE INSURANCE MARKETS/MICROINSURANCE

Jurisdiction	Study description
Albania	• World Bank: ALBANIA Insurance Market Development published in 2019 https://openknowledge.worldbank.org/bitstream/handle/10986/33173/Albania-Insurance-Market-Development.pdf?sequence=5&isAllowed=y • National Financial Inclusion Strategy for Fighting Against Poverty and Enhancing Sustainable Economic Development in Albania. (by F. Mexhuani & A Ribaj), http://journals.euser.org/files/articles/ejme_v1_i2_18/Fitim.pdf
Armenia	• https://www.afi-global.org/wp-content/uploads/2020/12/AFI_IGF_armenia_CS_AW_digital.pdf
Georgia	• A feasibility study conducted on index-based flood insurance (Y 2014); https://www.ge.undp.org/content/georgia/en/home/library/environment_energy/introducing-weather-index-based-flood-insurance-to-municipalitie.html. • Livestock Insurance Implementation in Georgia, Pilot Test, Strategy and Implementation, The MicroInsurance Centre at Milliman (2019); http://www.microinsurancecentre.org/resources/documents/mortality-of-dairy-cows-in-georgia-english.html. • Managing risks for rural development: promoting microinsurance innovations, MicroInsurance Centre at Milliman, (2017-2020); http://www.microinsurancecentre.org/managing-risks-for-rural-development.html.
Kosovo	• IFC – International Finance Corporation and World Bank: https://openknowledge.worldbank.org/bitstream/handle/10986/31288/134583-WP-PUBLIC-12-2-2019-18-17-35-AgricultureFinanceinKosovo.pdf?sequence=1&isAllowed=y • CBK Meeting on Agricultural Insurance Sector: https://bqk-kos.org/in-pristina-was-held-the-meeting-of-the-agricultural-insurance-sector-in-kosovo/?lang=en
Macedonia	• Adult Financial Literacy Competencies in Macedonia, Results of the OECD/INFE Based Methodology Study2019, https://edukacija.aso.mk/2019/07/12/%d0%b8%d0%b7%d0%b2%d0%b5%d1%88%d1%82%d0%b0%d1%98-%d0%b7%d0%b0-%d0%bc%d0%b5%d1%80%d0%b5%d1%9a%d0%b5%d1%82%d0%be-%d0%bd%d0%b0-%d1%84%d0%b8%d0%bd%d0%b0%d0%bd%d1%81%d0%b8%d1%81%d0%ba%d0%b0%d1%82%d0%b0/ • The Global Findex Database 2017 measuring financial inclusion and Fintech Revolution, https://edukacija.aso.mk/2021/03/03/извештај-на-светската-банка-за-финанс/ • EBRD Transition Report 2016-17, https://edukacija.aso.mk/2021/03/03/извештај-за-транзиција-на-ебрд-2016-17/
Poland	• There were no studies concluded, but the issue was raised in the following publications: • Dariusz Stańko, Microinsurance as a means of protection against the risk of poverty. • Teresa H. Bednarczyk Microinsurance – Product Innovation or Return to the Roots? • Kawiński M., 2010, The insitution of mircoinsurance. Szumlicz T. (red.), Social aspects of insurance development, SGH, Warszawa, p. 311 – 324. • Kurek R., 2009a, Microinsurance in the world – commercial and non-commercial supporting initiatives, Borys G. (red.), Financial Sciences, Research Work of the University of Economics in Wrocław, No. 61, p. 165 – 175. • Kurek R. 2009b, Mutual insurance as a form of sale of micro-insurance, KarpuśP., Węcławski J. (red.), The financial market in the era of turmoil, Wydawnictwo Naukowe UMCS, Lublin, p. 539 – 546. • Solarz M., 2011, Selected methods of limiting the phenomenon of insurance exclusion, Annales Universitatis Mariae Curie-Skłodowska, Sectio H Oeconomia, vol. XLV, 2, p. 363 – 371. • Stańko D., 2010, Microinsurance as a method of protection against the risk of poverty. Factors shaping the demand and product development, Insurance News, No. 3, p. 105 – 119. • Zieniewicz M., 2014, Microinsurance as an opportunity for micro and small enterprises in Poland – an example of the transport industry, Scientific works of the University of Economics in Wrocław, No. 342, p. 359 – 366.

Romania	• World Bank Report: Financial Inclusion in Romania: Issues and opportunities, June 2019; https://openknowledge.worldbank.org/handle/10986/33629
Russia	• Bank of Russia's Financial Inclusion Indicators (in Russian), including demand-side insurance indicators: http://www.cbr.ru/develop/statistics/?CF.Search=&CF.TagId=119&CF.Date.Time=Any&CF.Date.DateFrom=&CF.Date.DateTo

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