

Stimulating Demand: The Supervisor's role in building Insurance Awareness

A2ii – IAIS Consultation Call

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Expert



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1. Conceptual framework
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3. Insurance awareness and the ICPs
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A conceptual framework (1)

- What are the factors that stimulate demand (take up and renewals)?

Determinant	Evidence available	Effect on first sales	Effect on renewals
Trust	😊😊😊	↗ High	↗ Medium
Liquidity constraints	😊😊😊	↗ High	↗ Medium
Value proposition (and its perception)	😊	↗ Medium-high	↗ High
Behavioural factors	😊	↗ Medium-high	↗ High
Understanding insurance	😊😊	↗ Low-medium	↗ Medium-high
Access to other coping mechanisms	😊	↗ Medium	↗ Medium

- M. Matul, *The complexity of increasing demand what we can do about it*, *State of Microinsurance*, 2015

A conceptual framework (2)

- Trust, liquidity constraints and understanding insurance can stimulate demand.
- Insurance awareness plays a key role not only to stimulate demand and therefore promote the development of the insurance sector but also to ensure consumers protection.
- Supervisors can play an important role to promote insurance awareness and therefore stimulate demand and ensure consumer protection!
 - **QUESTION: Do you think that supervisors could do more in order to stimulate demand? Yes or no?**

A conceptual framework (3)

- What exactly is insurance awareness?

Insurance awareness could be defined as the ability of having the knowledge and understanding of what is insurance and how it works.

- Risk exposure and levels of vulnerability
- Risk management tools
- Insurance as a risk management tool
- Insurance basics
 - How it works?
 - Who protects consumers and how?

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- Specific marketing for products
 - Specific terms and conditions of the purchased policy
 - Specific product usage

Where is the line between financial education, marketing, and compliance of disclosure obligations by insurers and intermediaries?

A conceptual framework (4)

- The unserved and underserved populations know what are the risk they are exposed to....
- However they tend to underestimate the losses suffered and this makes it difficult to communicate the value of protection.
- If they do not acknowledge the full cost of risks, they are unlikely to adequately prepare for them...
- Despite this they adopt clever risk management strategies despite the scarcity of their conditions...
- The challenge is: how to communicate better the value of protection and therefore will be keen to seek better ways to manage their risks, such as insurance?



Farmer in Bangladesh (Kurigram district) shows the level of the latest flood (2017)





Some risk preparedness tools before the flood in Kurigram....

A mandate for supervisors?

- All insurance supervisors are charged with the objective of protecting the interests of policyholders and insurance awareness is essential to achieve this.
- Some supervisors have recognized other mandates such as promoting access to insurance in their jurisdictions.
- **QUESTION: Is it recognized the mandate to promote access to insurance in your country?**

Insurance awareness and the ICPs

- ICP 19 – Conduct of business

“The supervisor requires that insurers and intermediaries, in their conduct of insurance business, treat customers fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied”.

- ICP 18:

“The supervisor sets and enforces requirements for the conduct of insurance intermediaries, in order that they conduct business in a professional and transparent manner”.

- Intermediaries’ role in promoting public trust and confidence in the insurance sector
- Intermediaries’ role in promoting financial awareness

The particular relevance of insurance awareness in inclusive insurance

1. Special consumer protection considering the profile of the typical inclusive insurance consumer
 - Low education levels – high information asymmetries
 - Low insurance awareness and trust
 - Low levels of disposable income
 - High power asymmetries
 - Difficult to reach
2. The need to stimulate insurance demand to achieve key public policy goals
 - Financial Inclusion
 - Disaster Risk reduction and Climate Change Adaptation
 - Rural Development
 - Food security
 - SMEs development, etc...

The IAIS guidance in the context of a vulnerable consumer

IAIS, Issues paper on Conduct of business in inclusive insurance, 2015

The degree of separation between the insurer and the insured, the variety of entities involved, the skillsets of sales persons found in models used in inclusive insurance and the particular vulnerability of the consumer increase considerable the risks

Six risks in inclusive insurance models:

1. Prudential risk
2. **Aggregator risk**
3. **Sales risk**
4. **Policy awareness risk**
5. Payments risk
6. **Post-sales risk**



Recommendations to supervisors to promote insurance awareness (1)

1. Insurance awareness should be promoted not only with end consumers but also to other entities that are in a position to unlock demand to build resilience

- Other government entities
 - Ministries of Finance, Agriculture, Environment, Risk Management, etc...
 - Other supervisors
- Key aggregators
 - MFIs
 - Cooperatives
 - NGOs
 - Agribusiness

Supervisors could lead the efforts to advocate the benefits of insurance. Some steps could be to make sure that insurance awareness is a key component of financial inclusion and financial education strategies.

Recommendations to supervisors to promote insurance awareness (2)

2. Coordination of public and private stakeholders aiming to promote risk and insurance awareness, and consumer protection such as:
 - Supervisors
 - Insurers and insurance associations
 - Disaster Risk management authorities
 - Consumer protection associations

It is essential to avoid reinventing the wheel and to adopt cost effective approaches:

- Synergies between risk management awareness programs and insurance awareness programs should be promoted.
- Dialogue and coordination to adopt evidence based programs that provide real impact (M&E of programs)
- Clear definition on who does what and who pays for what (roles and responsibilities)
- Clear distinction on financial education, marketing and compliance of disclosure obligations

Recommendations to supervisors to promote insurance awareness (3)

3. Adoption of proportionate approaches by supervisors to:
 - Ensure that insurers, intermediaries and distribution channels understand the distinctions between financial education, marketing and disclosure of obligations.
 - Allow the use of technology to promote insurance awareness.
 - Allow didactic and innovative tools for marketing and to comply with disclosure obligations - this is the best way to give some room to test models that could challenge traditional ways to protect consumers.
 - How
 - when
 - what

Recommendations to supervisors to promote insurance awareness (4)

3. Adoption of proportionate approaches by supervisors to:
 - Ensure that compliance of disclosure obligations are also considered in the context of group insurance.
 - Special awareness on claims management and dispute resolution.
 - Ensure that distribution channels have the skills and competence to support consumers.
 - Experience is key, so the best is to allow the offer of innovative products in the market and monitor them closely!

Thank you.

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