



**International Association  
of Insurance Supervisors**

**and**



**ISSUES IN REGULATION AND SUPERVISION  
OF MICROINSURANCE**

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# Issues in regulation and supervision of microinsurance

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## Abbreviations

|         |   |
|---------|---|
| AC      | Advanced Criteria   |
| AMF/CFT | Anti-money Laundering, Combating the Financing of Terrorism         |
| BMZ     | German Federal Ministry for Economic Development and Cooperation    |
| CGAP    | Consultative Group to Assist the Poor                               |
| CIMA    | Conference Interafricaine des Marchés d'Assurances                  |
| EC      | Essential Criteria  |
| GTZ     | Gesellschaft für Technische Zusammenarbeit                          |
| ICP     | Insurance Core Principle  |
| ICMIF   | International Cooperative and Mutual Insurance Federation           |
| ILO     | International Labour Organisation                                   |
| JWG     | Joint Working Group   |
| IAIS    | International Association of Insurance Supervisors                  |
| MFI     | Microfinance Institution  |
| MI      | Microinsurance  |
| MI-MBA  | Microinsurance Mutual Benefit Association                           |
| NGO     | Non-governmental Organisation                                       |
| PCC     | Protected cell company  |
| RSP     | Regulation, Supervision and Policy                                  |
| STEP    | Strategies and Tools against Social Exclusion and Poverty Programme |
| TPA     | Third Party Administrator   |
| UEOMA   | Union Économique Et Monétaire Ouest Africaine                       |

# 1 Summary

Regulators and supervisors in emerging market jurisdictions have little experience or empirical data to support their role in creating an “inclusive” insurance market that works effectively for the upper as well as the lower income segments, with the latter being the focus of “microinsurance”. Increasingly, however, supervisors and other microinsurance promoters (such as insurers, governments, donors, consumer lobbies) in many of these jurisdictions realise that a more conducive and enabling regulatory environment is required for the development of microinsurance is required. These initiatives are aimed at adapting laws and regulations which support the evolution of more inclusive insurance systems by encouraging existing insurers to serve low-income segments or by allowing microinsurers to evolve and integrate with the formal insurance sector.

Microinsurance can be provided by entities that are for profit or not for profit, and can be privately or publicly funded, or a combination of both. It is well recognised that every jurisdiction has the freedom to decide on the mode of financing for the development of microinsurance within its territory. The supervision of microinsurance may be mandated under the insurance law or some other law, and cases exist where it is recognised as a permissible activity without being supervised at all.

This paper explains the current state of microinsurance which is being developed for the low income population on the basis of prudent insurance business principles; its important role in developing inclusive financial systems particularly in emerging markets, and why it needs to be regulated and supervised along professional lines.

Biases and barriers are not always obvious to the regulatory bodies due to long-standing unexamined practices. This paper identifies issues and challenges in developing an enabling regulatory framework for promoting microinsurance in line with the IAIS Insurance Core Principles (ICPs). It draws upon the practical experience of: insurance supervisors with decades of experience in standard setting, standard implementation and supervision of insurance institutions; and microinsurance experts having a long track record in insurance and pro-poor financial systems development.

The primary audience of this paper are insurance supervisors, particularly IAIS members in developing countries, who are responsible for supervising entities licensed under insurance laws. Consequently, the impact of the social welfare system on microinsurance is not discussed in this paper since it is considered to be an issue to be dealt with by policymakers in individual jurisdictions rather than by insurance supervisors.

Microinsurance is not confined to any specific product or product line or a specific provider type. Although it is aimed at providing coverage to low-income<sup>1</sup> households, it is also important to clarify that the term microinsurance in this paper refers to servicing a specific income segment in the emerging market jurisdictions where the insurance markets are not well developed. It is therefore important to develop principles, standards and guidelines which assist in identifying the entities that need to be regulated and providing the rationale to the supervisor to justify any differentiation between the insurers regulated by the insurance laws, the ones regulated by other laws or the entirely unregulated ones<sup>2</sup>.

The Joint Working Group (JWG) comprising of IAIS Members and CGAP Working Group on Microinsurance (Subgroup on Regulation, Supervision and Policy Issues), feels that the weakest link in providing an enabling environment and a level playing field for

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<sup>1</sup> The concept of low income varies from jurisdiction to jurisdiction based on its state of development.

<sup>2</sup> In Philippines, under the new regulations notified by the Insurance Commission any informal microinsurance scheme having more than 5000 members can apply for a license.

microinsurance providers and customers lies in the effective financial market infrastructure itself. If an appropriate mix of incentives and disincentives can be provided, a well functioning and adequate supervisory system can be implemented to support the development of inclusive insurance markets and to protect the interests of the policyholders at large.

Insurance supervisors can embrace certain strategic elements in their policies and actions, and thereby foster an environment that makes microinsurance sustainable and feasible in an integrated manner by combining, *inter alia*, the following aspects:

- a) developing a microinsurance policy and promoting its implementation;
- b) facilitating the availability of key information/ statistical data on microinsurance business;
- c) promoting learning processes and dialogue among relevant sectoral stakeholders;
- d) enacting clear laws and regulations in accordance with internationally accepted standards<sup>3</sup> that encourage insurance coverage for low-income households and its compliance while limiting regulatory arbitrage,
- e) contributing to the policy dialogue with government so that social insurance schemes are working in conjunction with microinsurance;
- f) developing clear policies to enhance access to financial services which can be used as a basis for discussion with legislators, and also between government departments and supervisors;
- g) limiting moral hazard and fraud by promoting awareness, and putting in place controls and incentive systems; and
- h) promoting consumer education and raising awareness to instil an insurance culture among low-income households.

It is left to individual emerging market jurisdictions to develop rules and regulations related to regulation and supervision of microinsurance after keeping in mind their specific requirements. It is at the discretion of the supervisor to consider whether or not the proposed microinsurance schemes may take advantage of the optional treatments enunciated in this paper or should be subject to the standard laws and regulations applicable to insurers in the jurisdictions. The plan of operation should provide the basis for the supervisor to reach his conclusion. In some cases, the entity or the supervisor may need to recommend adjustments to the plan of operation. This could include adding certain legal or regulatory requirements if the supervisor finds that the scheme can no longer differentiate itself as a microinsurance provider.

The Issues Paper aims at outlining salient features of microinsurance in general, and of its regulation and supervision as an input for high-level expert discussion among regulators, supervisors and other stakeholders involved in the provision of insurance services for lower-income segments. It does not provide recommendations of any kind for the supervisors to follow. It recognises that the ICPs are the foundation of all insurance supervision, including microinsurance. Even though microinsurance has different features in many regards, a change in ICPs is not foreseen. It is rather the criteria on how the ICPs are interpreted with specific reference to microinsurance that may be subject to certain adjustments. A closer examination and analysis of different unique aspects and a continuous dialogue with supervisors will assist in determining the key principles in the regulation and supervision of microinsurance. This shall form the basis for justifying adaptations to the regulatory framework and also to develop standards and guidance.

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<sup>3</sup> Whilst it is recognised that emerging markets should aim to comply with international standards, jurisdictions should ensure that they take cognisance of their local circumstances. The ICPs recognise that there is a need for local circumstances to be taken into account in assessing observance of core principles. Basle II's National Discretionary Items (NDIs) also allow jurisdictions much flexibility in implementing Basle II in their own jurisdiction. The Basel II Framework describes a more comprehensive measure and minimum standard for capital adequacy that national supervisory authorities are now working to implement through domestic rule-making and adoption procedures.

## **Main Issues in the Regulation and Supervision of Microinsurance**

Creating an appropriate regulatory framework is a complex task since it involves many different actors and requires a large number of strategic and operational innovations. Despite increasing experience with microinsurance, there are still a host of unanswered questions about appropriate steps for overcoming regulatory barriers and achieving greater inclusiveness.

In recent times some jurisdictions have taken initiatives by adopting laws and regulations to support the evolution of more inclusive insurance systems — by encouraging existing insurers to serve low-income segments (downscaling) or by allowing microinsurers to evolve and integrate with the formal insurance sector (upgrading). The latter includes approaches, either within the ambit of existing insurance regulations or, more likely, through more appropriate microinsurance regulations; or ideally both.

Some questions that supervisors and policy makers shall be confronted with and need to be examined in further detail are mentioned below. Supervisors and promoters (such as donor agencies and local associations) should be able to find solutions to these questions by suggesting innovative approaches

### **Downscaling: Commercial Insurers serving the Low-income Market**

- 1) Should insurance supervisors assume responsibility for promoting microinsurance?** In some jurisdictions, policymakers and supervisors have already developed innovative approaches to promote microinsurance.
- 2) Should functional regulation be considered?** If microinsurance is offered by a commercial insurance company, it may adversely affect some of its key performance indicators. For example, efficiency ratios might appear worse if the costs of managing thousands of small policies are high relative to the premiums. Consequently, would it make sense to consider microinsurance as a business line with specific regulations?
- 3) Is the corporate culture in commercial insurance companies conducive to serving the poor?** Where commercial insurers are going down market, they often set up special departments that are allowed some flexibility regarding hiring practices, salaries, etc. Where there is a will, there is a way; but do most insurers have the will? Does moral suasion work or there should be an element of compulsion imposed upon by the insurance regulator?
- 4) What about policyholder protection?** Are special market conduct regulations required to protect microinsurance policyholders, who by definition are unaware about insurance products and may have limited options for responding to market conduct violations?

### **Upgrading: Formalising Informal Insurance Schemes**

- 1) Can a tiered approach to microinsurance regulations work?** In a tiered approach for microinsurance regulation, second and even third tier insurers (as opposed to the first tier) have lower cost levels and simpler institutional designs, which allows them to serve the low-income market where premiums are substantially lower than in the formal market. This is associated with less regulation, simpler products and often, innovative collection and distribution systems. The mutual benefit association in the Philippines is an example of a second-tier category.
- 2) What aspects of insurance regulations would need to be adjusted to formalise informal schemes?** Besides the capital requirement mentioned above, a number of other facets of insurance regulations might need to be adapted to suit microinsurance with its high volumes of small policies. For example, what is a workable method for calculating mandated reserves for a microinsurer? What types of investments are appropriate for smaller insurance companies? Does rate regulation (minimum or maximum loss ratio) have any place in microinsurance? Can standardised policy wording be simplified?

**3) Can a market orientation develop in an institution that has had a social orientation?** If an organisation perceives its role as serving the low-income segment, or assumes that market forces are inherently predatory, it is unlikely to adopt a market-oriented approach. However, in microfinance we have seen that social organisations have made the step towards commercialisation when the right rules were in place and the right owners were behind this effort.

**4) Can the microinsurance organisations truly play by the rules of the game?** Formal insurance institutions are expected to follow rules that are enforced by insurance supervisory authorities. Policyholders and investors have trust in meaningful financial statements, and the knowledge that prudential ratios are met and monitored by insurance authorities. Insurance supervisory authorities are reluctant to allow new entrants into the system, especially if these have weak ownership structures, which cannot meet capital adequacy requirements, have fragmented governance structures that cannot provide meaningful management oversight, and have management teams that will struggle to withstand the rigors of meeting standards and requirements.

**5) Do they have the staff and systems capacity?** The main apprehension why many microinsurance companies may fail is the absence of professional capacity, not lack of access to capital. Capital enables weak structures to survive unchanged. Microinsurance companies that do not perform well are much more vulnerable when they are flooded with capital, particularly donor money. Any motivation to improve is weakened until it is too late. Granting an insurance license to a weak microinsurance operation offers little benefit to the financial sector and compounds performance difficulties for the organisation. An organisation should not be formalised until it can meet and maintain requirements for a license. However, licensing regulations may have to be adapted.

**6) Are donors and governments distorting incentives for commercial microinsurance?** Overabundance of donor and government funding limits the attractiveness of microinsurance to investors. Large subsidies prevent the emergence of competitive commercial operations that can compete. Donor funding, while well intentioned, competes with investor risk capital.

Source: Chatterjee, Wiedmaier-Pfister (2006)

## 2 Introduction

- 1) The **International Association of Insurance Supervisors (IAIS)** issues globally accepted principles, standards and guidance papers for insurance regulation and supervision. The IAIS's Implementation Committee supports insurance markets in establishing a sound insurance supervisory system. Whilst guidelines must not run contrary to any existing legislation, it is also broadly accepted that insurance supervisors have a developmental role and have thus created a joint working group to address the issues of microinsurance.<sup>4</sup>
- 2) The **CGAP<sup>5</sup> Working Group on Microinsurance (CGAP WG MI<sup>6</sup>)** operating since 2002 includes representatives from donors and international development agencies and other

<sup>4</sup>"Objectives vary from jurisdiction to jurisdiction, but they typically fall within a range of primary objectives. A major variation is the encouragement of development of a strong insurance industry where one has not yet developed. Many supervisory systems started with the objective of fostering the development of a strong, stable private or public/private insurance industry and later evolved to remove the development objective."- pp3 - A Core Curriculum for Insurance Supervisors- Insurance Core Principle (ICP) 1: Conditions for Effective Insurance Supervision - Basic-level Module, IAIS (2006) (see [www.iaisweb.org](http://www.iaisweb.org)).

<sup>5</sup> The Consultative Group to Assist the Poor (CGAP) is a consortium of 33 public and private development agencies working together to expand access to financial services for the poor in developing jurisdictions. CGAP was created by these aid agencies and industry leaders to help create permanent financial services for the poor on a large scale (often referred to as "microfinance"). CGAP is a resource centre for the entire microfinance industry, where it incubates and supports new ideas, innovative products, cutting-edge technology, novel mechanisms for delivering financial services, and concrete solutions to the challenges of expanding microfinance (see [www.cgap.org](http://www.cgap.org)).

<sup>6</sup> The CGAP WG on Microinsurance is chaired by the International Labour Organisation (ILO).



insurance and financial systems development experts. It supports the development of microinsurance through research, tools, coordination and awareness creation. A key issue is to identify and support the development of regulatory and supervisory frameworks as well as policies conducive to protect policyholders and develop insurance markets for the low-income segments.

- 3) Today, many emerging market jurisdictions are addressing the issue of widening the reach of insurance services to those segments of the population that have remained uninsured or under-insured. A central element in the promotion of inclusive financial systems<sup>7</sup> is the development of microinsurance – the protection of low-income people<sup>8</sup> against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved – while continuing to foster a safe and sound financial system.
- 4) To identify current practices in microinsurance regulation and supervision, a survey of insurance supervisors was carried out by the IAIS in 2006. The survey aimed to identify legislation that encourages or discourages microinsurance initiatives. Forty IAIS member jurisdictions responded. The results showed that although there is much interest in regulation, supervision and policy issues surrounding microinsurance, many supervisors felt that more could be done. Since circumstances vary from one jurisdiction to another, there is no single approach to the regulation and supervision of microinsurance that is universally applicable. As a result, it was decided to review the existing regulatory and supervisory requirements that are important for the development of microinsurance.
- 5) The IAIS represented by its Implementation Committee and the CGAP WG MI – represented by its Subgroup Regulation, Supervision and Policy (RSP)<sup>9</sup> – agreed in their first meeting in Basel (February 2006) to establish a Joint Working Group (JWG). The insurance supervisors in the JWG have decades of experience in standard setting and implementation, and supervising insurance institutions. Experts in the CGAP WG MI have a long track record in insurance and pro-poor financial systems development. This experience has been utilised for analysing the current practices in microinsurance regulation and supervision, and on that basis this Issues Paper has been developed.
- 6) In chapter 3, this paper generates a common understanding of microinsurance by describing the background, concepts, products, stakeholders, challenges and regulatory aspects. In chapter 4, areas have been identified where issues arise in the application of IAIS Insurance Core Principles to the supervision of microinsurance. In particular, they focus on prudential, governance and market conduct issues. Recognising that microinsurance activities should not be held to a lower standard simply because of the nature of their activities, one needs to address appropriately the nature of the activities and the risks involved. Finally, in chapter 5, recommendations are given for the implementation of next steps.
- 7) This paper raises issues about microinsurance and its regulation and supervision. Further work on understanding the role of mutuals and cooperative in microinsurance is necessary before developing principles on regulation and supervision of microinsurance. A guidance paper and a standard on microinsurance for insurance supervisors is envisaged as a subsequent step.

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<sup>7</sup> In inclusive financial systems, a greater number of persons, particularly low-income persons, have access to appropriate financial services.

<sup>8</sup> The concept of low income varies from jurisdiction to jurisdiction based on its state of development.

<sup>9</sup> Gesellschaft für Technische Zusammenarbeit (GTZ) chairs this subgroup on behalf of the German Federal Ministry for Economic Development and Cooperation (BMZ).

### 3 Understanding microinsurance<sup>10</sup>

8) This chapter begins by defining microinsurance describing its evolution and presenting key concepts. It also introduces the types of insurance products that are currently available to the low-income market, and describes the role of key stakeholders involved in extending microinsurance including governments and insurance supervisors. This section concludes by summarising the main challenges associated with microinsurance and some appropriate criteria for an enabling regulatory and supervisory environment.

#### 3.1 Microinsurance background

##### 3.1.1 Definition and explanations

9) “Microinsurance” means different things for different supervisors.<sup>11</sup> In most jurisdictions, microinsurance is not considered as a separate type of insurance and just viewed as insurance available in small sums.<sup>12</sup> This could be cited as one of the reasons for non-development of a separate set of rules for microinsurance in many jurisdictions.

10) There are many ways in which microinsurance can be explained, for example:

- risk-pooling instruments for the protection for low-income households,
- insurance with small benefits,
- insurance involving low levels of premium,
- insurance for persons working in the informal economy, etc.

However, this paper uses the following definition:

Microinsurance is insurance that is accessed by low-income population, provided by a variety of different entities, but run in accordance with generally accepted insurance practices (which should include the Insurance Core Principles). Importantly this means that the risk insured under a microinsurance policy is managed based on insurance principles and funded by premiums. The microinsurance activity itself should therefore fall within the purview of the relevant domestic insurance regulator/ supervisor or any other competent body under the national laws of any jurisdiction.

*Explanatory note: Microinsurance therefore does not include government social welfare as this is not funded by premiums relating to the risk, and benefits are not paid out of a pool of funds that is managed based on insurance and risk principles. For the same reason, it does not include emergency assistance provided by governments in, for example, natural disasters, floods/fires in low-income townships, etc. However, as risk manager of last resort, the State may determine that there is a need to sponsor access to microinsurance for the most underprivileged through redistributive practices. There are cases where the State plays a stronger role in fully funding schemes, but these would only be considered microinsurance if they are run according to insurance principles.*

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<sup>10</sup> Parts of this chapter are adapted from various chapters in Churchill, C. (ed), 2006. *Protecting the poor: A microinsurance compendium* (Geneva: ILO).

<sup>11</sup> See Glossary for explanation

<sup>12</sup> In Brazil the term “popular insurance” is used standing for small-scale mass products. However, popular is not the same as microinsurance since microinsurance targets low-income households whereas popular insurance is for all kind of customers and just means insurance of small amounts

- 11) In this context, microinsurance is aimed towards low-income households that may not typically be covered by other insurance and/or social security schemes – people who have not had access to appropriate insurance or social security services. Of particular interest is the provision of coverage to persons working in the informal economy that do not have access to formal insurance nor social protection benefits provided by employers directly, or by the government through employers. Low-income workers in the formal sector may also demand microinsurance services.
- 12) Microinsurance is neutral in terms of the size of the risk carrier – it can be small and informal, while others are large mutual insurers or insurance companies. Microinsurance also does not refer to any particular type of risk, which are by no means “micro” to the households that experience them.
- 13) Microinsurance covers a variety of different risks, including illnesses, accidental injuries, and death and property loss – basically any risk that is insurable, and is designed to be appropriate in terms of affordability and accessibility to low-income households. They can be offered as a single risk product or as a bundled risk product. Coverage can also be provided on an individual or group basis.
- 14) Organisations providing microinsurance are microinsurers, although they assume many different forms. Microinsurance risk carriers include small community-based schemes, mutuals, cooperatives, or joint stock companies. They may be for-profit or not-for-profit. Not all microinsurers are regulated by the insurance law. Depending in the legal set-up of a particular jurisdiction, some fall under other laws and authorities such as the cooperatives or health providers, others may be unregulated.
- 15) In practice, the risk carriers often form linkages with a range of players in order to reach out to the low-income market. Some examples of these linked schemes include:
- a) a partnership between a social security institution and a cooperative or a Microfinance Institution (MFI) as in the Philippines;
  - b) collaboration between a state government, an insurer, a third party administrator (TPA) and a series of community based organisations, as in several Indian States;
  - c) a partnership between the central government and mutual health organisations as in Colombia;
  - d) relationships with non-financial organisations such as cell phone companies, post-offices, and non-government organisations (NGOs);
  - e) links of MFIs with other types of financial institutions.
- 16) It is also important for insurance supervisors to realise that most features of insurance largely apply to microinsurance as well, such as actuarial, accounting, auditing, policy documentation, reinsurance, monitoring performance indicators, technical management (enrolment, claims processing), contracting with health care providers etc. However, some unique features of microinsurance, as illustrated in Table 1, may require a different kind of regulatory approach.<sup>13</sup>
- 17) One key difference between microinsurance and other insurance is how it is made accessible to the low income market. The core issue for microinsurance is simplicity. How does one develop a product and its related processes simply enough that people can understand them? Given the huge volumes of small policies, can the administration of premiums and claims be done as efficiently and inexpensively as possible? Innovations are a key to finding solutions to these challenges.

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<sup>13</sup> These characteristics are broad generalisations, presented here to illustrate the main differences between commercial and microinsurance, although there are many exceptions.

18) With that in mind, the following are **key characteristics of microinsurance**:

- a) **As inclusive as possible:** While insurance companies tend to exclude low-income households, microinsurance schemes generally strive to be inclusive. Since the sums insured are small, the costs of identifying high-risk persons, such as those with pre-existing illnesses, may be higher than the benefits of excluding them in the first place.

**Table 1. Illustrative distinctions between conventional insurance and microinsurance**

| <b>Conventional Insurance*</b>   | <b>Microinsurance</b>   |
|--|---|
| Premium collected in cash or mostly from deductions in bank account  | Premium often collected in cash or associated with another transaction such as a loan repayment or asset purchase;<br>Collection modes should respond to the market's irregular cash flows, which may mean frequent premium payments. |
| Sold by licensed intermediaries  | Often sold by unlicensed intermediaries   |
| Agents and brokers are responsible for sales and services. Direct sales are also common.                               | Agents manage the entire customer relationship, perhaps including premium collection. Microinsurance is often directly sold to groups.  |
| Targeted generally at wealthy or middle class clients in emerging markets.   | Targeted at low-income persons in emerging markets.   |
| Market is largely unfamiliar with insurance in emerging markets. Only corporate customers are familiar with insurance. | Market is largely unfamiliar with insurance and therefore requires a heavy investment in consumer education   |
| Screening requirements may include a medical examination   | If there are any screening requirements, they would be limited to a declaration of good health  |
| Large sums insured   | Small sums insured  |
| Priced based on age/specific risk  | Community or group pricing; in case of individual pricing often higher premium due to risk level of policyholders and lack of competition on supply side  |
| Limited eligibility with standard exclusions   | Broadly inclusive, with few if any exclusions   |
| Complex policy document  | Simple, easy to understand policy document  |
| Claims process may be quite difficult for policyholders  | Claims process should be simple while still controlling for fraud   |

Adapted from McCord and Churchill (2005)

\* Not applicable for large group insurance.

- b) **Grouping for efficiencies and access:** Group insurance is more inclusive and cost effective than individual coverage. Even though the informal economy is frequently seen as disorganised, there are groupings available, such as women's associations, informal savings and credit groups, cooperatives, small business associations and the like. Some microinsurers use these groups effectively by enlisting their support in member selection and reducing insurance risks such as fraud, over-usage and moral hazard.
- c) **Clearly defined and simple processes, rules and restrictions:** Insurance contracts are generally full of complex conditions, conditional benefits, and written in strong legalese. Although the rationale for the fine print may be consumer protection, if the consumers do not understand what is written, its very purpose is defeated.

Microinsurance contracts have to be in plain language, (preferably local language) and kept as simple so that everyone has a clear understanding of what is covered and what is excluded. The product and the processes associated must then be simple to sell and administer. Technology can contribute to achieving this goal. However, in some cases, access to internet or other infrastructural requirements such as an electrical supply may be scarce or inexistent in some point of services and operations may have to be performed manually.

- d) **Wariness of customers:** In general, low-income households are apprehensive about insurance. Therefore, consumer education is important to raise awareness about how insurance works and how it can benefit them. Equally important, however, is upholding promises and fulfilling obligations, and creating positive experiences with insurance services among the low-income segments of the population.
  - e) **Limited data:** Even when there are relevant longevity, mortality and morbidity data, which is infrequent, these tables do not typically reflect the risk of low-income households that are more exposed to a wider variety of risks.
  - f) **Premium collection:** Premiums must be efficiently collected, and with flexible payment terms that closely fit the income streams of the low-income segment. For example, a small farmer may prefer to pay once or twice a year, just after harvest, whereas a petty trader may prefer monthly or even weekly payments.
  - g) **Alternative delivery channels:** Traditional brokers/ agents typically do not want to sell microinsurance with its relatively small premiums (and thus small commissions). Thus, many microinsurance delivery channels are unlicensed and unregulated agents. Often the regulator allows the insurer to take on the risk of agents so may not need to be directly regulated. New delivery channels include a) developing a group of “barefoot” agents from local markets dedicated towards this specific market segment; b) using microfinance institutions, credit unions, and cooperative staff to sell basic microinsurance products; c) selling microinsurance products through retailers, cell companies and other agencies having access to low-income households (d) adapting the sales process to rely less on high cost advice based models but more on clear and transparent disclosure.
- 19) Last but not least, it is important for supervisors to clearly understand what microinsurance is in general, and to define it for their particular jurisdiction before considering any different regulatory approach in terms of its treatment related to prudential, market conduct and operational aspects.
- 20) In summary, microinsurance is not a specific product or product line. It is also not limited to a specific provider type. Microinsurance is servicing a specific income segment, i.e. the low-income earning segment of the population.

### **3.1.2 Evolution of microinsurance**

- 21) Microinsurance is not a new phenomenon. In most markets, including emerging markets, one finds a variety of microinsurance schemes. For example, mutual health care schemes or funeral associations may have started many years ago, but many have remained informal.
- 22) Formal insurance was founded on the idea of protecting specified segments of the society against their major risks. The first groups to be covered were salaried workers. Some of the most prominent of today's large insurance companies began in Europe and North America in the 1800s as mutual protection schemes among factory workers and farmers. Over the years, however, efforts to prevent fraud and misuse have resulted in

rules and requirements that might not be effective or appropriate for the low-income households. In some cases, efforts to maximise shareholder returns have led insurers away from their original clientele in search of more profitable customers.

- 23) More recently, microinsurance has expanded through community-based and other local initiatives, some promoted by donors. Bilateral and multilateral donors are helpful in providing technical and financial assistance to microinsurers and have promoted the conceptual discussion on microinsurance. The donor community cannot yet rely much on lessons of effective microinsurance promotion and therefore, is still studying effective ways (do's and don'ts) to promote microinsurance. However, some valuable lessons can be drawn from microfinance, which has a longer history and a broader global reach.<sup>14</sup>
- 24) The growth and success of microfinance – which was originally seen as the provision of savings, transactions (including remittances) and credit services to low-income households and micro enterprises before the inclusion of microinsurance – has been responsible for creating a delivery channel to help regulated insurers target the low-income segment in an efficient manner.<sup>15</sup>
- 25) In some jurisdictions, new rules have motivated commercial insurers to move into the low-income market or informal microinsurers to formalise (see examples in point 57). At the same time, insurers have also recognised the opportunity in this market segment.

### **3.1.3 Concepts**

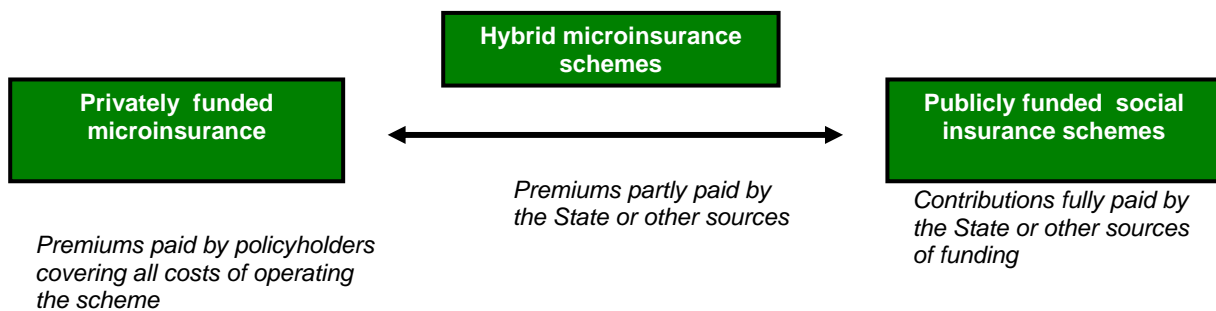
- 26) As defined above, microinsurance is for low-income households, provided by a variety of different providers, and run in accordance with generally accepted insurance practices (such as the IAIS core principles). However, as risk manager of last resort and as a guarantor of a basic level of social protection for all, the State may determine that there is a need to sponsor access to microinsurance for the most underprivileged through redistributive practices. As illustrated in Figure 1, the funding of microinsurance runs along a continuum where premiums may be fully paid by the policyholders (privately funded) or they may be partially or fully paid by the State (hybrid schemes and publicly funded) or other components of society, such as formal sector employers (cross-subsidies through the contributions paid to statutory social security schemes).

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<sup>14</sup> see [www.microfinancegateway.org](http://www.microfinancegateway.org)

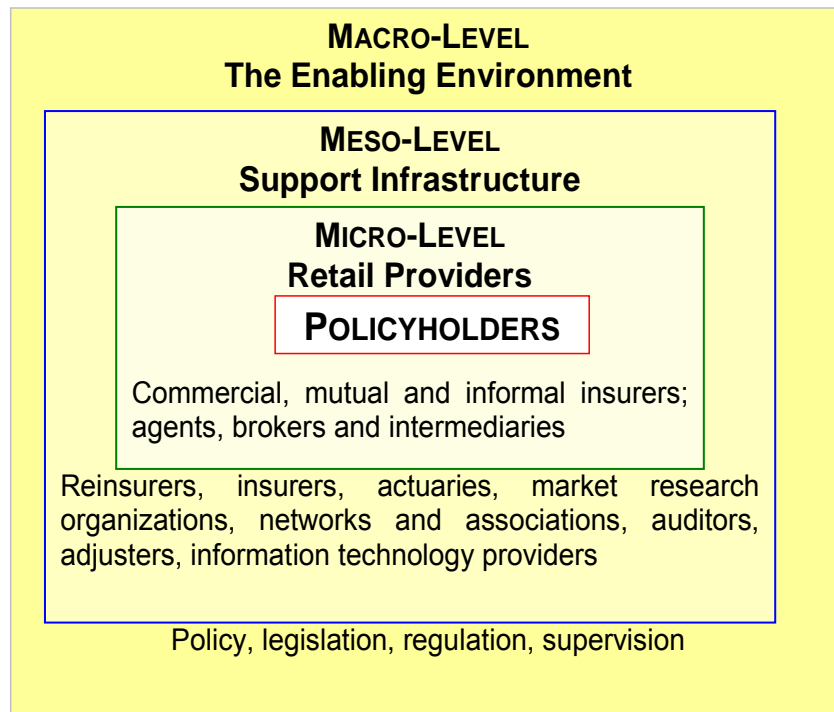
<sup>15</sup> Microfinance institutions (MFIs) are sometimes not allowed by the law to deliver microinsurance products in some countries e.g. the Parmec legislation on microfinance (that applies to West-African jurisdictions) which mandates that a special approval from the State should be obtained when the MFIs manages microinsurance products for more than 5 % of the risk borne by the institution.

**Figure 1. The premium/contributions continuum**



- 27) Some microinsurance risks are by nature social security-oriented, such as health and maternity benefits, disability, death, and old age. Governments have to define the scope and level of a minimum guaranteed package of social security and organise the access to this package through legislative and regulatory means. Microinsurance could be used by national governments to deliver this social protection package and thereby extend social security to uncovered populations.
- 28) Governments can delegate the responsibility of distributing the package to various entities in the public and private sector (non-profit organisations, insurance companies, statutory social insurance schemes, etc.). Governments need to define the role of the different players in the provision of social security. These roles should be complementary while achieving the highest possible level of protection and coverage. This does not prevent private insurance providers such as microinsurers to provide supplementary coverage e.g. for health or death risks. While these markets exist, this paper's description of issues is limited to those faced by insurance supervisors.
- 29) From a policy perspective, it is important that the demarcation line between social security programmes and market-led approaches is clear, and subsidies do not inhibit market initiatives.
- 30) Furthermore, it is important to bear in mind that it is the primary responsibility of the government to decide for which contingencies and for which groups' social security schemes should be created.

**Figure 2. Building inclusive financial systems**



Source: Michael J. McCord, adapted from CGAP

- 31) As illustrated in Figure 2, an analysis of the financial system should consider three distinct levels, each with their own requirements: retail financial institutions and other providers at the micro level; a meso level for financial infrastructure; and the macro level of an enabling policy and regulatory and supervisory environment.
- 32) At the **micro level**, an inclusive financial system has a variety of institutional forms or persons providing financial services, including joint-stock companies, mutual or cooperative organisations or groupings, NGOs or civil society organisations, or even individuals, who accomplish different functions by exploiting their comparative advantages in terms of costs and control of risks. According to CGAP (2004), at the micro level, financial sustainability is essential “for targeting a significant number of low-income households in order to realise long-term social returns.”
- 33) The **meso level** includes overall infrastructure and support institutions of the financial system, such as actuaries, reinsurers, networks and associations, rating agencies, auditing firms, long-term investment infrastructure, transfer and payments systems, data warehousing, and information technology, market researchers and technical service providers. Intermediaries such as agents and brokers are also important actors at the micro level. These entities need to be strong, capable and responsive to the particular needs of low-income households and their service providers in order to contribute effectively to building an inclusive financial system.



- 34) At the **macro level**, a conducive, stable macroeconomic and policy environment is necessary to underpin a pro-poor financial policy statement, e.g. in terms of a low inflation rate. To achieve this, government institutions have a constructive role to play by providing a framework for effective regulation and supervision of institutions.
- 35) With respect to an inclusive financial system, this would imply that the institutions operate on a level playing field, in the form of a set of rules which:
- a) do not favour a particular legal form of insurer;
  - b) allow appropriate types of institutions or intermediaries (including where formal players link with informal actors) to offer insurance services while providing equivalent levels of safety to insured persons; and
  - c) are adapted to the specificities of the organisation in terms of governance, residual rights of its owners and management of insurable risk.
- 36) The low-income market has immense potential if insurers can develop efficient and effective innovations. Prahalad<sup>16</sup> identifies the more than four billion persons living on less than US\$2 per day as a market opportunity if the providers of products and services, including multinational corporations, innovate by developing new business models and address low-income households as an important future consumer segment. Innovations can also be developed to combine market-led and publicly sponsored systems.
- 37) Viable microinsurance schemes have to find a way of delivering the following objectives:
- Expanding coverage to meet the needs of low-income households;
  - Minimising operating costs for the insurer;
  - Minimising the price (including the transaction costs for the clients) to enhance affordability and accessibility;
  - Meeting the real underwriting risks that low-income markets require;
  - Providing sufficient financial education or advice; and
  - Using simple claims settlement procedures with appropriate risk mitigations against fraud/moral hazard.

### 3.2 Products

- 38) The range of microinsurance products is almost as varied as that of commercial insurance. Existing insurance product types have been re-engineered to accommodate the needs of low-income households and their specific requirements. Though the array of microinsurance products on offer is wide, in many cases they are limited to some form of life and health microinsurance. The first is primarily a factor of microinsurers preferring life cover because of the lower cost structure and limited risk, and the efforts of micro-lenders to protect their assets. The emergence of health microinsurance is largely attributable to the promotion of alternative social protection mechanisms, such as the health mutuals in West Africa. Nevertheless, the commonly known types of microinsurance products are as follows:
- 39) **Life microinsurance:** The most commonly available microinsurance product is credit life insurance. Typically, it is a mandatory product for which the MFIs or its insurance partner absorbs the risk of default due to death from its clients. Life microinsurance often just covers the loan amount, but can also include funeral benefits for the policyholder, and

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<sup>16</sup> The guru behind the articulation of the "new market" perspective is C.K. Prahalad (2005), who illustrates in his book *Fortune at the Bottom of the Pyramid* that the "private sector, in its desire to ... gain market coverage, will invent new systems depending on the nature of the market."

sometimes for family members as well, especially spouses and children for lower benefit amounts. Few insurers offer products that assist in covering the period after the death of a breadwinner. There are also numerous informal funeral societies and other local efforts to assist people financially and socially in their time of loss.

- 40) In some cases, life insurance is tied to a **long-term savings** product such as an endowment. These products help policyholders build for future expenses such as school fees, weddings, and old age investments. Returns are sometimes vague, and lapses, inflation, high expense levels and insufficient investment options can limit the value of these instruments, especially for low-income policyholders. Credit unions and other microinsurers offer life policies based on a savings account with a multiple of the savings balance as the death benefit.
- 41) **Health microinsurance** provides coverage against the financial consequences of ill health and maternity. The financial consequences are of several natures: direct medical costs for prevention, care and cure (fees for consultations, laboratory tests, medicines, hospitalisation, delivery, etc.); direct non-medical costs such as costs for transportation and food in case of hospitalisation; and indirect costs (opportunity costs). Ill health and maternity usually cause a loss of productive time for both patients and caretakers. Health microinsurance schemes most often cover direct medical costs with a predetermined list of risks (or health services) that are covered. Few provide cash benefits (income replacement) in case of ill health and maternity.
- 42) In general, coverage is subject to a number of conditions, e.g. exclusion of chronic diseases, the limitation of medication to essential generic drugs and/or the restriction of services to a limited number of defined health care providers. There may be a contractual arrangement concluded with a health provider detailing all services to be provided. Another version involves no such agreement; services are reimbursed at a pre-set value to the policyholder who can go to the health provider of his or her own choosing. In most regions, health microinsurance is less available than life microinsurance even though health cover is commonly the most demanded by low-income households. Restricted policies are the norm, for example for limited hospitalisation and coverage of critical ailments. Few health products offer comprehensive care. As with commercial health insurance, fraud, adverse selection, and moral hazard have been significant issues. Health microinsurance has developed considerably in West African jurisdictions and in India this last decade.
- 43) **Disability microinsurance** is often linked with death cover in personal accident products. Frequently permanent and temporary disability covers are provided. Controlling the risks on these has proven costly, especially for temporary disability, because of the potential for fraud. Dismemberment<sup>17</sup> microinsurance is possible and confirmation of the insured event is clearer, but use of this product is limited. When linked to mandatory credit life insurance, often the policyholder does not even know that these benefits exist.
- 44) Only a few microinsurers offer **property insurance**, mostly because of the risks of fraud and moral hazard and the complexity of the products that requires better-trained intermediaries and a more knowledgeable client. The products offered are mostly linked to covering security for loans and/or the asset purchased with a loan. Primarily this is to secure the interest of the lender rather than as a benefit to the policyholder. However, a few programmes offer cover for personal assets, such as in the case of the Brazilian auto

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<sup>17</sup> Dismemberment means the loss of parts of the body.

(car physical damage insurance) microinsurance and livestock insurance available in India.

- 45) **Agriculture microinsurance:** National agriculture insurance products have almost universally failed in terms of commercial viability. New efforts are being developed to avert some of the moral hazard and fraud that plagues such products. Index-based weather insurance, where there is payout in case of insufficient rainfall and other measurable weather conditions, is being tested in several jurisdictions. Earlier banks were unwilling to lend to farmers primarily because of the risk that farmers would not have the ability to repay loans if there was a drought. Now index-based covers not only allow farmers to access loans, but also to adopt a more weather sensitive, but much more profitable crop.
- 46) **Catastrophic cover:** Whereas in high-income countries about a third of natural disaster losses are insured, there is almost no catastrophe insurance in emerging market countries.<sup>18</sup> Instead of insurance, households and business typically rely on family and public support. If this support is not forthcoming, there can be substantial socioeconomic consequences due to long delays in disaster reconstruction and recovery. Disaster insurance premiums include the costs of handling many small contracts, distributing the product often to remote areas, as well as assuring sufficient capital to cover dependent claims. These elements combine to make insurance more costly than the purchaser's expected losses from the insured events, and thus the dilemma for microinsurers is the provision of a low-cost product to highly risk-exposed, low-income clientele.
- 47) As far as the range of products is concerned, an interesting development is the emergence of **composite products** that combine life, health and asset protection, perhaps underwritten by different insurers but sold together in a bundled form by one agent. Bundled products seem to have higher acceptability amongst the customers and they have the additional advantage that the household can have access to more insurance services and save on transaction costs. The contrary position is that composite products add to the complexity of the product and require more consumer education. Often low-income policyholders are not aware of all of the benefits of composite products, and therefore the claims ratios are artificially low.

### 3.3 Stakeholders

- 48) A variety of different stakeholders are involved in microinsurance. As explained in Section 3.1.3, the market operates at different levels. There are the public actors, such as governments, policymakers and regulators/supervisors at macro level. There are the support institutions and intermediaries whether corporate or individual, at meso level. Private actors operate at micro level, including insurance providers which are regulated or unregulated, and healthcare providers. Furthermore, there are the present and potential policyholders, the low-income households.
- 49) In addition, some **donors** and international agencies support microinsurance development, as illustrated in Box 1.

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<sup>18</sup> Munich Re NatCatSERVICE (2005). Natural disasters according to country income groups 1980- 2004. Munich Re, Munich.

### **Box 1. Donors and International Development Agencies in Microinsurance**

Microinsurance is growing in popularity among donors and international development agencies, perhaps because it addresses the core vulnerabilities of the poor and therefore responds to many development priorities. Microinsurance also sustains investments in other areas such as employment creation. Whether from a social protection entry point or a private sector/financial sector approach, donors are interested in the contributions of insurance to development.

These agencies can play a supportive role while enhancing good practices and professionalism at the different levels of the financial system involved in the sustainable provision of insurance to the poor. The intervention areas include:

- a) market education at the potential or actual policyholder level (“client level”);
- b) private and public retail providers (risk carriers) offering insurance services on a financially viable basis and at the same time appropriate for low-income persons (“micro level”);
- c) support institutions, such as networks and associations, information clearing houses, training and technical assistance providers promoting transparency, fostering knowledge management and consumer recourse development as well as intermediaries (“meso level”) and
- d) regulators, supervisors as well as policymakers (“macro level”) creating an enabling environment.

In their efforts to strengthen local financial systems, donors and development agencies draw on different instruments, ranging from technical assistance grants and capacity-building support at all levels of the financial system, to soft loans to governments for various activities.

Besides channelling public funds, the mobilisation of private capital through Private-public Partnership arrangements becomes increasingly important in supporting financial system development.

Donors and international development agencies work in partnership with national stakeholders such as governments, civil societies and the private sector to coordinate and leverage their engagements. Furthermore, their support should be coherent with international standards.

The CGAP Working Group on Microinsurance was set up to promote sound practices and agree on international standards for the support of microinsurance through the exchange of knowledge and experience, tools development and the promotion of innovations.

#### **3.3.1 Government (Macro level)**

50) In most emerging economies, resource limitations constrain the efforts of the Governments to take care of the low-income population under the ambit of social security schemes. This is particularly true for the self-employed and workers in the informal economy who are often difficult to reach. Even where such schemes exist, low-income populations may not have complete access for a variety of reasons, including a lack of information, poor targeting, and sometimes politicisation of the schemes.

51) The goals of more efficient and holistic social security services and more inclusive financial systems are in some cases quite similar. This is particularly true in those cases where both are premised on the fact that the state is the ultimate risk manager and is responsible for ensuring that the wider population is able to manage its risks effectively. Both sides – the welfare/redistribution based and the privately funded microinsurance schemes – can be considered as interlinked and complementary. Some schemes may have a redistribution component, which will cease over time and has to be assumed by policyholders. Others, such as health insurance for the very poor, may have to rely fully or partly on redistribution since high risk populations often cannot afford to pay for their own coverage. However, one has to recognise that inappropriately designed

redistribution schemes can 'crowd out' privately funded microinsurance in such a way that effective coverage of the wider market is hampered.

- 52) The experience in West African jurisdictions shows that public redistributive systems often do not function for the informal economy. The only way for the poor to be covered is to set up health microinsurance mutuals that are very inexpensive; the premium can be as low as USD 0.50 per person per month. Work is under way to increase the capacity of those institutions under a legal environment that recognises their role and sets specific rules (see 57 f).
- 53) It is conducive to microinsurance development if policymakers and other stakeholders are engaged in a public-private dialogue on microinsurance provision where they make their strategies transparent.

### **3.3.2 Regulators/ Supervisors<sup>19</sup> (Macro level)**

- 54) Insurance supervisors can have a facilitative role in making the regulatory environment more conducive to microinsurance, thereby stimulating its development without compromising on prudential aspects.
- 55) One finds supervisors increasingly being mandated with a developmental role apart from their classical role of protecting policyholders and maintaining financial stability. Developing insurance markets by improving market efficiencies and including persons who are currently unable to access or afford insurance through creating a favourable regulatory framework for product design and delivery mechanisms is increasingly recognised as a role of supervisors. To fulfil these functions, insurance supervisors would have to:
- a) understand the strengths, opportunities, and the threats inherent in microinsurance, and identify informal schemes in their jurisdiction;
  - b) study examples in microinsurance regulation and supervision of other jurisdictions and contribute to the international discussion about regulatory and supervisory frameworks for microinsurance;
  - c) promote a national dialogue on microinsurance in their jurisdiction between policymakers, operators, intermediaries and low-income consumers;
  - d) coordinate with different supervisory authorities in their jurisdiction responsible for regulating formal insurance schemes which may not yet be under their authority (e.g. systematically exchange information to prevent regulatory arbitrage);
  - e) implement appropriate regulations for microinsurance, including a possible adaptation of their supervisory practices ;
  - f) as part of the regulator's requirements to analyse the markets (ICP 11), play a greater role in understanding the risks that low-income populations face, the potential demand for services, and the barriers to accessing formal services (whether attitudinal or real);
  - g) facilitate training of supervisory staff in specific aspects of microinsurance;
  - h) develop suitable performance indicators and reporting and disclosure requirements for the monitoring of microinsurance schemes; and
  - i) promote the introduction of technology based microinsurance operations.

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<sup>19</sup> This document uses the term "insurance supervisor" to refer to the authority responsible for regulating the conduct of insurance business - both insurers and intermediaries - to protect policyholders' interests in a particular jurisdiction.

- 56) A stable and strong insurance system is crucial to sustaining long-term economic growth and efficient resource allocation. To establish a sound insurance market, public confidence in the institutions concerned is of prime importance. Confidence can only be strengthened and maintained if institutions deliver reliable and quality services and consumers' interests are protected. In this respect, the insurance supervisor must promote the long-term stability of service providers through monitoring of their financial soundness and their treatment of customers. These aspects are particularly relevant for microinsurance since; on the one hand, many microinsurance schemes operate beyond regulatory purview or are regulated and/or supervised by another authority. On the other hand, customer protection for low-income households is particularly critical since less educated consumers are more vulnerable to fraudulent schemes and mis-selling.
- 57) In some jurisdictions, policymakers and supervisors have already developed innovative approaches to promote microinsurance, such as:
- a) In India, the Insurance Regulatory and Development Authority in its effort to promote the development of microinsurance has developed a separate microinsurance regulation. This regulation has less stringent training norms for microinsurance agents compared to a normal insurance agent provided they sell a predefined microinsurance product filed by the insurer. Other key features include allowing higher commission to be paid for selling microinsurance products, and cross-selling by insurers in the form of offering a bundled insurance product (having elements of both life and non-life insurance) at the front-end to the customer, provided that there is clear separation of life and non-life insurance risks at the back end.
  - b) In Brazil, the insurance supervisor has promoted sector dialogue on microinsurance. Other parallel incentives were introduced such as the ombudsman rule and financial education programmes. Incentives for alternative distribution channels were also considered. Coupled with tax relief for life insurance these incentives have resulted in a dedicated commercial insurance industry and expanded microinsurance provision.
  - c) In South Africa (SA), a new tier (funeral insurance license) is being considered with reduced entry and compliance requirements; in addition, public private dialogue in the form of the SA Financial Sector Charter was carried out resulting in voluntary access targets for the low-income segment by the industry as well as voluntary entry-level product standards;<sup>20</sup>
  - d) In the Philippines the Insurance Commission has adapted its regulations of Mutual Benefit Association (MBA), which are recognised under the insurance law, by creating a new form of "Microinsurance MBAs (MI-MBAs)" with specific rules for this segment — such as simple products, stipulated requirements to comply with performance standards, and a definition for Microinsurance based on the benchmark of the minimum daily wage for non-agricultural labourers in Metro Manila. MI-MBAs receive a favourable treatment compared to other MBAs in terms of a lower guarantee fund during their first years of operation.
  - e) In Peru the supervisor has issued a microinsurance regulation for the insurance industry and its agents such as MFIs and others. This includes e.g. a definition of microinsurance, the requirement for simple products, rules for group and individual insurance, for claims handling, and for simplified reporting to the supervisor;

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<sup>20</sup> See [www.zimele-loa.co.za](http://www.zimele-loa.co.za) for the life insurance Zimele product standard and [www.saia.co.za](http://www.saia.co.za) for the Mzansi non-life insurance product standard.

- f) In Senegal and Mali a regulation on mutual micro health insurance had been adopted. Based on a participatory process in eight UEMOA West-African jurisdictions a new regulation is under discussion. It considers the specifics of these institutions - private institutions that are non-profit, based on solidarity, and covering a social risk. The rules, in particular prudential, have been written with the aim of protecting the individuals (consumers) but also of not putting too much burden on still new and fragile institutions.<sup>21</sup>

58) The experiences of these jurisdictions are possible directions for others to consider. Nonetheless, there are no standard solutions and each jurisdiction needs to analyse its particular situation and develop its own approach.

### **3.3.3 Support institutions (Meso level)**

59) To expand their operations, retail insurance providers need a number of services provided by support institutions. In microinsurance, although few specialised support institutions exist, the most important are the services of reinsurers, market research organisations and of networks/associations.

60) **Networks and associations** are actively engaged in the following tasks: lobbying and dialogue, monitoring and self-supervision, code-of-conduct development and their enforcement, research and product development, and funding joint investments. Some also provide back office management, assist with distribution, and offer technical support and capacity building.

61) There are also non-insurance type apexes with links to microinsurance, such as associations of financial or agricultural cooperatives, which can facilitate the provision of microinsurance by acting as a distributing channel.

62) Support institutions could also include universities and research centres. Specialised research might be used to develop critical market analysis or underwriting information for use by microinsurance entities.

63) The availability of innovative support services by apexes or private firms can significantly facilitate microinsurance provision. Typically, apexes are national or regional (in large jurisdictions), although international associations, such as the International Cooperative and Mutual Insurance Federation (ICMIF) also provide the benefit of a wider network and the sharing of international lessons.

64) To expand the availability of microinsurance, reinsurers need to reconsider the prospects of the low-income market. They might require a new business model for selling insurance in small portions so that these sales can aggregate to significant financial volume over time. But this might require a substantial upfront investment. Reinsurers need to consider what role they can play in reducing the barriers to entry into risky markets where there is little information on risk incidences or to provide technical support to new players. They are also well positioned to support better research on the demand side of the market across jurisdictions. In some instances, reinsurers are prevented from engaging with the low-income market; for example, not being able to reinsure Friendly Societies in South Africa. Finally, in some jurisdictions, regulation of financial markets restricts access to

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<sup>21</sup> For more information please see: [www.itcilo.org/step/mutuelles](http://www.itcilo.org/step/mutuelles)

foreign reinsurers because of foreign exchange restrictions, and this may limit access to suitable reinsurance arrangements.

65) As is necessary in the case with insurance, microinsurance also requires a vast amount of data to enable actuarial, underwriting and business decision-making. Data quality issues present unique and important complexities. In designing insurance products for any type of risk, insurers (both public and private) must understand the relevant statistical properties. This requires both credible long-term statistical information and actuarial models to define the relevant risk probabilities and to predict the likelihood of various events. An important area of public sector support can be the development of information sources such as risk maps that improve the institutional capacity of both public and private sector providers to identify and analyse risk. This information can form a common foundation upon which the transparent identification and pricing of risk (premium rates) can be based.

### 3.3.4 Categories of Insurers providing microinsurance (Micro level)

66) In the context of microinsurance, one can distinguish between three categories of providers according to the specific rules and regulations (insurance and others) that apply to them (see Table 2). Entities in the first category – **regulated under the insurance law** – are supervised by the insurance supervisor. In many jurisdictions, there are several types of licensed insurers, such as joint stock companies, and mutual and cooperative insurers; in other jurisdictions, the insurance law is confined to one type of institution, namely joint stock companies.

**Table 2. Overview of insurance providers according to their legal status**

| Category 1   | Category 2  | Category 3  |
|--|---|---|
| <b>Organisations regulated and licensed under the insurance law (insurers)</b>   | <b>Organisations regulated and/or licensed under any other law (formal entities under laws other than the insurance law)</b>  | <b>Informal schemes (entirely unregistered and under no legal setting)</b>  |
| <ul style="list-style-type: none"> <li>• Commercial insurers (joint stock companies)</li> <li>• Cooperative or mutual insurers (member-based)</li> </ul> <p>Some jurisdictions exempt certain insurers from being supervised even though they do insurance business.</p> | <ul style="list-style-type: none"> <li>• Funeral societies or associations</li> <li>• Cooperatives under the cooperatives authority</li> <li>• Mutuels under the mutual authority or under other laws</li> <li>• Health insurance schemes or health providers under health authorities</li> <li>• Insurance offered through post offices under the postal authority</li> <li>• Non-governmental Organisations (NGOs)</li> </ul> | <ul style="list-style-type: none"> <li>• Funeral parlours or unregistered death benefit associations</li> <li>• Informal groups and community associations</li> </ul> |

67) The second category is **regulated under any other law (other than insurance law)**. These entities are regulated and/or licensed by authorities and are not always based on



insurance regulatory principles. For example, a cooperative authority or health authority registers and sometimes supervises them according to their own set of rules.<sup>22</sup>

- 68) The third category are the **informal** providers, which could be individual persons or groups of persons (associations without registration and formal backing), who pool their risks under no legal setting at all. They are not subject to any type of supervision and are unregistered. Although the IAIS Insurance Core Principles and Methodology do not contain such an explicit explanation on permissible activities, as the Basel Core Principles Methodology do,<sup>23</sup> an explanation may be helpful in designing alternative structures for regulating and supervising informal finance or insurance.
- 69) The IAIS Supervisory Standard on Licensing (1998) contains a comparable provision. Section III indicates that there may be "insurance business which may not be licensed" (paragraphs 15-17) because the sums insured do not exceed certain amounts, or that losses are compensated by payments in kind, and that the activities are pursued following the idea of solidarity.
- 70) Insurance supervisors remain wary about microinsurance providers to "operate underground". Although not licensed or supervised, informal providers may need to be registered so that supervisors are aware of their existence and can take remedial actions if deemed necessary. Interventions may include enforcing a licensing procedure in case the scope and scale of activities of a microinsurance provider exceeds certain limits. In India, the insurance law allows the Government to exempt specific insurers from supervision by the insurance supervisor.

### **3.3.5 Insurers regulated under the insurance law**

- 71) While mutual and cooperative insurers have a history of serving their members among those including low-income households, commercial insurers in most emerging market jurisdictions have only recently discovered low-income households as a new market segment. Some insurers are pushed down market by competition. Others enter motivated by public dialogue, or moral suasion, to innovate with this new customer segment.
- 72) When regulated insurers, who are generally unfamiliar with microinsurance, decide to reach out to low-income markets, they are faced with a series of new issues or additional tasks. The insurers who have tried to venture in this area have felt the need to
- understand the demand and risk incidences of an unfamiliar market;
  - partner with new agents or delivery channels;
  - adjust their control environment to address microinsurance risks (for example, typical claims documentation requirements may not be available in rural areas, or the types of controls used to verify a US\$100,000 policy would not be appropriate if the sum assured was US\$1,000);
  - adapt stringent accounting and disclosure requirements that may be inappropriate for microinsurance in view of the high costs involved;

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<sup>22</sup> In West Africa, health microinsurers are not regulated under the CIMA Code that applies to the field of insurance. In South Africa, small insurers established under the Friendly Societies Act (under a certain threshold) are exempt from the Long Term Insurance Act.

<sup>23</sup> See essential criterion 4 to Principle 2 (Permissible activities) and footnote 11. Essential criterion 4 states that "the taking of deposits from the public is generally reserved for institutions that are licensed and subject to supervision as banks." Footnote 11 states that the word "generally" allows for the presence of non-banking financial institutions which may be regulated differently from banks but do take deposits and provide lending services, given these institutions collectively do not hold a significant proportion of deposits in a financial system. These institutions should be subject to a form of regulation commensurate to the type and size of their transactions.

- invest in start-up costs, including product development, getting licensed for new business lines or products, and arranging for guarantee funds or reinsurance;
- educate or train their workforce about microinsurance;
- identify and educate prospective microinsurance customers;
- find a way to assess the risk of microinsurance clients without historical data;
- adjust tables (mortality, disability, longevity) for actuarial calculations;
- recognise the need for innovative approaches to reduce costs and be possibly be willing to accept a lower expected rate of return (at least for some time);<sup>24</sup>
- understand that regulatory minimums, if mandated, can be a constraint;
- access incentives or subsidies, such as tax relief, where possible.

### **3.3.6 Insurers regulated under other laws and Informal insurers**

73) The entities listed under Category 2 in Table 2 – insurers regulated by any other law – can vary considerably in size and type. However, these institutions have a number of common features.

74) Insurance schemes outside the scope of insurance law – be it the ones under Category 2 or the informal ones under Category 3 – usually spring from a common need for pooling risk among local people. They have the advantages of cost efficient delivery mechanisms, have little initial cost and can freely innovate since they are not constrained by insurance regulations. This is particularly true for informal insurers. In some emerging market jurisdictions, supervision under Category 2 may be rather weak compared to supervision of insurance authorities. These insurers fill a gap and play a useful role in providing protection to low-income households. However, when schemes grow appropriate regulation and supervision may be required.

75) Insurance activity which is not well regulated and supervised is rarely priced on actuarial principles and schemes or institutions found lacking in terms of providing for sufficient technical provisions and reserves. The agents or other delivery channels of the informal insurers remain unlicensed and hence, not supervised. As a result, clients have no consumer protection and have to rely solely on trust.

76) Funeral societies may be the most common form of microinsurance scheme outside of the insurance law. Although they may be registered under the societies act (or some equivalent legislation) and are formal, they are not licensed as insurers.

77) Not all of these microinsurers have to be or can be regulated, even though there are good reasons to incorporate Category 3 schemes and in some cases also Category 2 schemes, where very large numbers are involved, under the insurance law when they reach a certain size. The cost of transformation, both for the supervisor as well as for the microinsurer, may be too high compared to the risks involved and the services needed by its typical clients. Furthermore, the effort of becoming an entity regulated by the insurance law may have unintended consequences. For example, formal insurers may not be able to provide services to persons without proof of identity.

78) There are microinsurance schemes that would like to convert to a licensed insurer; however, regulatory provisions may be inappropriate for them. High minimum capital

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<sup>24</sup> The case of AIG Insurance in Uganda, partnering with a MFI, has shown that Microinsurance schemes can also be highly profitable for the insurer and the agent.

requirements which are often not commensurate to the risk acceptance level are in some cases considered an impediment to formalisation, or an entry barrier to specialised microinsurers. On the one hand, the supervisor seems justified for not encouraging insurance entities with weak ownership and capital to be licensed. However, on the other hand, it is difficult to justify denying small organisations – often locally-based and oriented toward the low-income market – a license due to stringent requirements that they can never fulfil (e.g., ownership structure, legal form, and minimum capital), which are actually inappropriate for the types of services that they are providing. As a result, they are left with no option but to operate in quasi-legal “grey” areas, outside the insurance laws and escape prudential or market conduct supervision. Some jurisdictions set capital requirements according to business level/and/or risk acceptance level facilitating microinsurers migrating to a licensed insurers’ status.

- 79) To avoid attracting the attention of supervisors and risking closure of their operations, they often give their products names other than insurance. In many jurisdictions, for example, health care facilities operate parallel schemes offering free or discounted access to healthcare in exchange for regular payments (premiums). The customers subscribing to such schemes are not holders of an insurance policy and in case the hospital decides not to fulfil its promises, there is little recourse.
- 80) Such arrangements may have negative implications at the institutional and client levels even though their services might be the only one that a poor household has access to. First, these providers operate on an uneven playing field, which goes along with market distortions and a lack of transparency, and favours arbitrary conduct by providers. Second, they have little chance to grow, attract investors or partners, or access risk transfer mechanisms like reinsurance. Third, they may have little or no reserves, and be rather inefficient. Consequently, there is a lack of risk sharing and adequate technical support from reinsurers for underwriting and claims administration. If they were licensed under the insurance law, such microinsurers would be able to access reinsurance (and reinsurers’ technical support) and could manage their capital more efficiently.
- 81) Without an insurer’s licence, the microinsurer is trapped in a vicious cycle: no licence and no reinsurance means greater risk of failure and the risk of being shut down by the regulator or police services. This also has negative ripple effects on the clients as:
- a) greater risk means higher premiums as the unregulated insurer tries to cover unanticipated risks
  - b) uncertainty increases the likelihood of discontinuation of membership and
  - c) irregular contributions threaten the sustainability of the scheme or institution.
- It also threatens the safety of the scheme’s funds and impedes its orderly development, which further denies it the opportunity to remain competitive in the long run.
- 82) To minimise the risk of failure and regulatory arbitrage for all market participants, the governmental body responsible for the supervision of different insurance providers should be clearly defined in the respective laws.
- 83) From the regulatory perspective, microinsurance can be viewed as an “activity line” since many different types of providers can offer it and in some aspects (e.g. market conduct) they should comply with the same rules and regulations even though they fall under different stipulations. Regulation of microinsurance as an activity line has the advantage of preventing regulatory arbitrage, although special regulations according to the provider type (e.g. cooperative, joint-stock, mutual health) remain valid (see 125 and Table 3).
- 84) In some situations, regulatory forbearance towards insurance schemes outside of the insurance law may be more desirable than creating a new regulatory framework, at least

until there are enough sizeable schemes to justify regulating them under the insurance law.

85) In other situations, especially not-for-profit institutions managing health insurance schemes, it can be more suitable to promote a specific legislation that will set rules for such insurance activities taking into account the special function and nature of those institutions. To what extent such rules may also be valid for this provider type needs to be validated.

### **3.3.7 Intermediaries**

86) In microinsurance, intermediaries have been defined broadly to be anyone or any institution that can assist in providing insurance to low-income households for one or more companies. The variety of institutional and individual intermediaries engaged in microinsurance delivery in practice is broad.

87) Trust is a major issue in microinsurance. Insurers' lack of interest towards microinsurance could be mitigated through proper cooperation with recognised, if not supervised, distribution networks. Essentially, this can include any vehicle which an insurer can use to effectively distribute insurance products, and may include MFIs, credit unions, financial and non-financial cooperatives, retailers, post offices, NGOs (or their front line staff), cell-phone agents, village women or a specialised microinsurance sales force.

88) Microinsurance intermediation faces several problems in balancing the need to protect the consumer, on the one hand, and the possible need for adjusted regulations or supervision in order to facilitate access by the poor. A common problem is that other laws (e.g. the banking regulations) may not allow a MFI to be an agent. Intermediation regulation in some jurisdictions (in the interest of consumer protection) requires a minimum level of training and know-how. Licensing often involves extensive training and certification fees, which are ill-suited to microinsurance. Therefore, these agents are often not licensed (see para 57 a), lower requirements for agents).

89) Brokers, though normally more directly regulated by a market conduct regulator, have a dual role and potential conflict of interest in case they fail to offer unbiased advice. In such a situation, they act simultaneously as the representative of their clients and the insurer since they receive incentives for selling policies of a particular insurer. In some places, the brokers take a serious approach to their role as representative of their clients. Other brokers are much more focused on the potential for profiteering from potential commissions, so there is a significant risk of mis-selling especially in the case of microinsurance where commissions will be much lower as related to the low premiums involved.

90) Intermediaries involved in the microinsurance activity should be motivated and trained to give enough information to enable the client to make an informed decision, although a balance will have to be made between high cost advice based models, disclosure and non-advice models.

91) Microinsurance agents and brokers are generally remunerated in one of three ways:

- a) Most common is a commission basis. In general, intermediaries earn between five and twenty percent of premiums as commission.
- b) In other cases, the intermediary will share some of the risk with the insurer. In these cases, the intermediary and the insurer will share any surplus after deducting a fixed amount for the insurer's overhead costs.

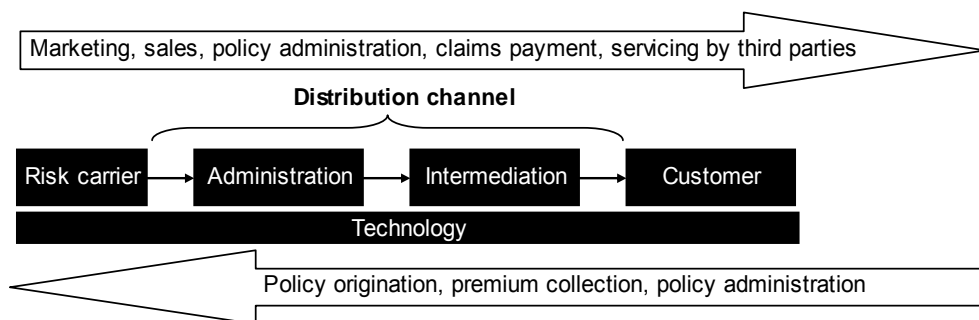
c) A third mechanism is a mark-up method. In these cases, the insurer sells group policies to institutional agents. These institutional agents then mark-up the premium for policyholders, who are often required to purchase the product. Mark-ups of 100% of the premium are not uncommon in microinsurance. If not properly accounted for, such practices may lead to mis-selling, fraud and discrimination between insured that possess the same risk.

92) The role of brokers in microinsurance could have potential as a possible professional representative of the policyholder, but few examples have been implemented. Efforts are underway to promote microinsurance to existing brokers in several jurisdictions; however, the results are not yet known.

93) Supervisors also need to be prepared for the emergence of new distribution channels, such as retailers or post offices, which extend the outreach to low-income households; as well as new technologies, such as mobile (cell) phones, which hold significant promise to enhance efficiencies and lower transaction costs and which are crucial elements for massively providing microinsurance.

94) To summarise the discussion, Figure 3 presents a general model of insurance distribution.

**Figure 3: Functional model of insurance distribution**



Source: Genesis Analytics adapted from Leach, FinMark Trust 2005

95) Distribution encompasses a variety of functions. Distribution is not only limited to sales activities and it includes a variety of administrative and intermediation activities necessary to deliver the product to the customer. These functions include marketing, sales, premium collection, policy and client management, policy administration and claims payment. These distribution activities may be conducted by various entities and the roles of specific entities may vary from case to case. The major components of the distribution channel are the risk carrier, administration, intermediation and a technology platform.

96) The relevance of the breakdown of activities and institutions is that different institutions and functions may be subjected to different aspects of regulation, different cost structures or different incentives and may, therefore, present specific challenges with regards to distributing microinsurance.

- **Risk carrier:** In the above diagram, the risk carrier is most often a registered insurer. This is the entity that in the final instance is liable for the risk.
- **Administrator:** Policy administration may be done at the level of risk carrier or intermediary or may even be outsourced to a specialised entity. Significant cost reductions can sometimes be achieved when administrative functions are outsourced to a specialised administrator.

- **Intermediary:** The intermediary is responsible for the activities that rely on client contact (e.g. policy origination) and may take a variety of forms including a direct sales division, tied or independent agents, retailers, etc.
- **Technology:** The technology platform may include a variety of technologies ranging from sophisticated electronic solutions using of cell phones to social technologies in the form of premium collection through self-help groups.

Various permutations of institutional and functional make-up are possible and the particular combination of institutional and functional structure and the relationships between the various components determine the ultimate features of a specific distribution model.

### **3.3.8 Policyholders**

97) As mentioned above, microinsurance serves a different type of clientele than mainstream insurance. Microinsurance policyholders are low-income persons with irregular income streams, often self-employed or employed in informal enterprises. They may live in high-density urban or in remoter rural areas that suffer from weak infrastructure such as roads, markets, water and electricity. They often have a low level of education and financial literacy, and may not possess a national identity card or certificate of their health status.

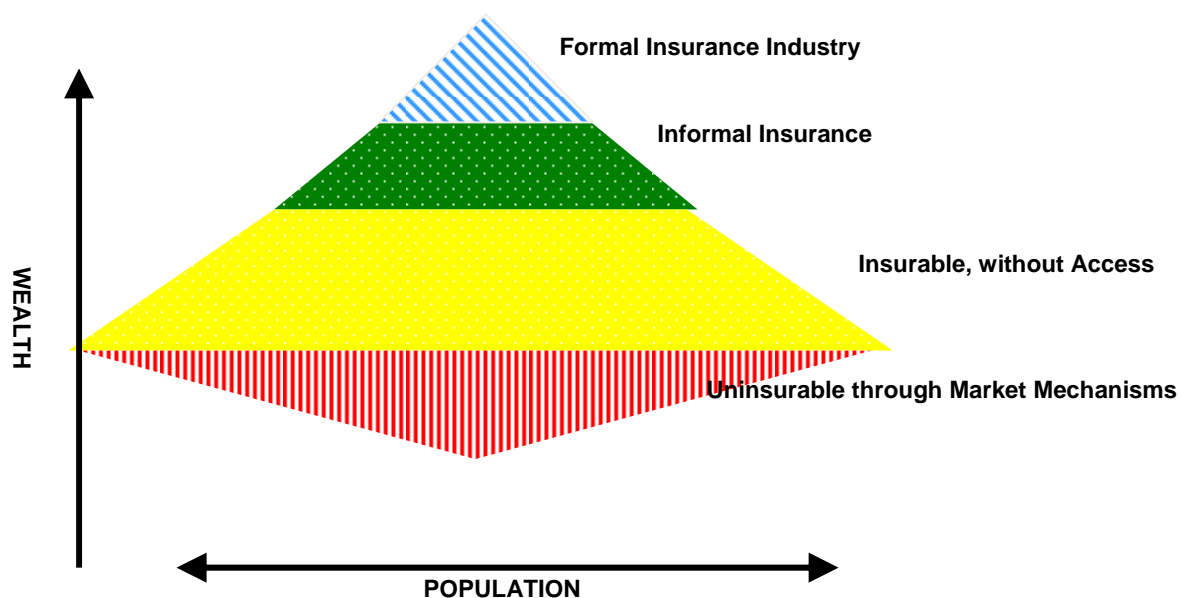
98) In financial terms, microinsurance clients are used to savings and demand this service. However, they often save in non-financial or non-traditional means such as physical assets, rotating savings and credit associations or funeral clubs. In the cases where microinsurance customers have had microcredit, they have proven that they are reliable borrowers and honour their obligations.<sup>25</sup> The fact that the financial service is customer-oriented, tailored to the needs and potential of a low-income household, is of utmost importance.

99) High drop-out and lapse rates that some microinsurance schemes have experienced often relate to problems with the provider, not the policyholder. For example, dropouts may signal an ill-designed product, a misunderstanding about terms and conditions cited in the policies, or lack of effective and focused marketing. In addition, low-income households are often ill-informed about the negative consequences of non-payment or late payment of premium (lack of insurance cover due to the lapse of the policy).

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<sup>25</sup> According to the Microfinance Information eXchange ([www.themix.org](http://www.themix.org)), many MFIs have loan loss rates below 2 percent which is considerably lower compared with loans to the higher income segments in some emerging markets.

Figure 4. Who is insured by whom?



Source: Michael McCord, presentation at IAIS tri-annual Meeting in May 2006, Ottawa. Adapted from Churchill.

100) In general, low-income persons tend to have limited or no exposure to insurance and may have little trust that claims will be paid by insurers. If they have had insurance services, they may have had less opportunity to seek redress in the event of malpractice by the insurance provider. In addition, they frequently are not able to acquire the records that insurers typically require (such as death certificates for people who die in remote rural areas or birth certificates to prove their age).

101) In many countries, a large number of poor persons could be insurable if products were appropriately designed and delivered (see Figure 4). In the absence of access to innovative customer-oriented insurance services, low-income households tend to rely either on state systems (which are often inappropriate) or on self-organised schemes, such as mutual benefit societies. Even when these systems are available, they do not cover the whole range of insurance needs; low-income households must still cope with substantial amounts of risk on their own through savings depletion, asset sales, reduced consumption, credit and other means.

### 3.4 Challenges

102) **Insurance coverage:** In emerging markets, a low percentage of the population uses conventional insurance services compared to developed jurisdictions. Since neither government schemes nor informal insurance schemes effectively cope with this gap, the majority of the population lacks access to insurance protection. The distribution frontier does not usually extend to the millions of economically active persons working in the formal and even less, in the informal economy. The consequences of insurance rationing for the economy as a whole might be significant: destruction of wealth; reduced productivity and economic growth; loss of investments in human resources through education; shortened productive life; overburdened state health care facilities.

103) **Information asymmetry:** One reason for this “rationing” of insurance is related to information asymmetry. When insurers cannot distinguish between good and bad risks,

they tend to avoid this market. Even when insurance is available, the fear of adverse selection and moral hazard, and the costs of mitigating it, results in rationing. Information asymmetry may be an even more severe problem for microinsurance, especially for a mainstream insurer with little experience or understanding of the low-income market.

- 104) **Transaction costs:** Rationing is also related to the fact that to engage in an insurance contract, insurers incur significant transaction costs, in terms of (a) intermediating the product, (b) collecting premiums where there is likely to be a lack of bank accounts, (c) assessing and paying out small claims. These tend to be relatively higher, especially if it is determined on a percentage basis, for smaller policies. Transaction costs are not proportional, i.e. small values create relatively high costs. The increased costs must be included in the premiums, increasing the cost of insurance.
- 105) **Types of providers:** The landscape of microinsurance providers varies considerably in terms of the institutional nature and legal form. There is no “optimal type” of microinsurance provider since each insurance market has different features. In some jurisdictions, there are many informal microinsurance providers that should be licensed (“up-grading”). In other jurisdictions, insurance companies have the potential and interest to serve low-income households (“down-scaling”). Finally, there are microinsurers that may never become formal providers since they are relatively small, operate in remote areas, the regulatory risks are relatively low and the cost of formalisation would force them out of the market.
- 106) Some non-commercial insurers provide solutions that involve potentially lower transactions cost. Mutual insurance, for example, appeals to groups of homogeneous members in terms of risk, and is motivated to control moral hazard and adverse selection. In fact, “mutuals arose as an efficient means of addressing contract challenges caused by aggregate uncertainties that hindered pricing and operation and moral hazard”<sup>26</sup> Several features of mutual insurance reduce transaction costs allowing lower, more affordable pricing of insurance. Today, many existing microinsurance schemes are mutuals, and are found to be supervised by the insurance supervisor, or other authorities or even unsupervised.
- 107) **Distribution systems:** The distribution systems of most insurers are not designed to serve the low-income market. The people who work for insurance companies are usually unfamiliar with the needs and concerns of low-income households. Similarly, the culture and incentives in insurance companies reward and encourage salespersons to focus on larger policies, more profitable clients and discourage staff from selling insurance to low-income households. The system of brokers, agents and direct sales used by insurers is generally appropriate for corporate customers and high-value individual customers, but has not, generally, yet worked for the low-income market. Limitations imposed by way of restrictive remuneration for distributing insurance products, such as commission ceilings, may limit the spread of microinsurance.
- 108) Innovative delivery channels may lower the transaction costs for insurers. Indeed, success in microinsurance is predicated on reducing operating costs. In some jurisdictions, these issues have led to linkages between insurance companies and organisations that traditionally work with low-income households and who therefore have a better understanding of that market and can help to provide microinsurance services in an adequate and sustainable manner.

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<sup>26</sup> See Nekby, L.(2004) pp. 119



- 109) **Customer education and awareness:** One of the greatest challenges for microinsurance is the target market's lack of insurance information and understanding. This leads to weak demand for such services. It also opens the door to deliberate mis-selling by agents striving to reach quotas or higher commission levels, which further deteriorates the reputation of insurance.
- 110) Potential microinsurance clients are often sceptical about paying premiums for an intangible product with future benefits that may never be claimed – and they are often not too trusting of insurance companies. Educating the market and overcoming its bias against insurance is therefore a major challenge. Promoting consumer education about the value of insurance is time-consuming and costly, although the return in terms of reduced lapse rates may be considerable. The market should be made aware of the advantages of a regulated insurer.
- 111) **Consumer protection:** The low-income market is particularly vulnerable to at least two forms of abuse. First, agents or insurance sales persons may provide misinformation or mislead low-income clients, while displaying aggressive sales practices. Second, low-income persons are often forced to purchase insurance when borrowing, or they are not informed that they have other options. With these products, one often finds extremely low claims ratios, suggesting that many policyholders are unaware of the coverage. Awareness should be created about consumer rights.
- 112) **Consumer recourse and complaints:** Efficient and effective procedures and processes should be in place for lodging complaints and resolving disputes between insurers/insurance intermediaries and their customers. However, low-income households will likely require alternative channels for communicating complaints than mainstream insurance customers due to lack of trust and education.
- 113) **Products:** The products generally available from insurers are rarely designed to meet the specific characteristics of the low-income market, particularly the irregular cash flows of households with breadwinners in the informal economy. Other key product design issues include setting appropriate insured amounts, avoiding complex exclusions and indecipherable legal policy language. Other pressing demands on the policyholders' income and cash-flow fluctuations require flexibility in premium payment and quick processing of claims.
- 114) **Composite services:** In some jurisdictions, licensing requirements does not allow the formation of composite insurance companies, but require establishing separate companies for life and non-life products. This might not apply to microinsurance for a number of reasons such as cost-benefit considerations and the potential for product innovations. It may be important to consider allowing microinsurance providers to sell bundled products. In such a model, two different risk carriers could do underwriting, while allowing the customer to deal with one single face at the point of sale. Relying on bundling at point of sale may not provide sufficient market flexibility.
- 115) **Reinsurance:** Reinsurance is a powerful risk management tool that should also be used by microinsurance providers. Insurers use reinsurance to manage risks effectively and ensure a level of financial predictability, assuming that they have a viable product or one that can be made viable with the appropriate interventions. However, as many microinsurance schemes are not regulated under insurance law, they generally cannot access reinsurance. If they were licensed, microinsurers would have the possibility to access reinsurance (and reinsurers' technical support) and could manage their capital more efficiently.

- 116) **Tax treatment:** Existence of tax differentials for institutional types and customers can create incentives and disincentives for the development of microinsurance. Tax breaks, incentives or removal of disincentives can motivate insurers to serve the low-income market. Although this aspect is not directly in the realm of insurance supervisors, they might be in a position to provide relevant inputs and convey them to the policymakers. In the present situation, when many governments are looking to promote alternative market-based mechanisms to provide protection for the lives, and assets of its population, policymakers may find merit in such proposals (see 53 b).
- 117) **Support infrastructure:** At the meso level, there is a need for institutions providing services to microinsurance retailers to facilitate transparency and dialogue on microinsurance. The existing support institutions in most jurisdictions are often not responsive to microinsurance. As has been pointed out above, the role of **training and education** is critical. Supervisors can facilitate training on microinsurance in the local insurance industry to foster its development on sound lines. Licensing of all providers must be based upon minimum competency and knowledge of the unique aspects of microinsurance. Microinsurance institutes offering training by insurance professionals is critical in this regard.

### 3.5 Creating regulatory frameworks for microinsurance

- 118) There is no uniform view on what the appropriate policy objectives for the regulation of the insurance sector should be. The following are, however, generally accepted as the most relevant objectives for insurance regulation (in the typical order of priority):<sup>27</sup>
1. Safeguarding the solvency of firms involved in the provision of insurance policies (which can also be described as ensuring the stability of the sector);
  2. Protecting consumers or policy holders;
  3. Increasing the competitiveness of the market and its efficiency (including the adoption of new technologies and innovation generally);
  4. Developing the market, including formalising financial services to low-income clients; and
  5. Supporting other strategic (non-insurance) objectives such as compliance with international standards or law enforcement (e.g. AML/CFT controls).
- 119) Traditionally, the focus has mostly been on ensuring solvency and consumer protection and to some extent market efficiency (although this has always been placed secondary to stability and solvency). More recently, however, the focus has expanded to also include market development objectives and to take account of other strategic objectives of governments such as financial inclusion by making insurance available and accessible to the informal sector. These two objectives carry particular weight in emerging market jurisdictions which are faced with the challenges of market development as well as multiple development goals (some contradictory) which have to be managed, aligned and prioritised within limited resources.
- 120) To fulfil this objective, how can supervisors contribute to the creation of regulatory frameworks, including their supervisory systems, which will enable large parts of the

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<sup>27</sup> See, for example, "Prudential Supervision of Insurance Undertakings", the report on the Conference of Insurance Supervisory Services of the Member States of the European Union (2002). Available from [http://ec.europa.eu/internal\\_market/insurance/docs/solvency/solvency2-conference-report\\_en.pdf](http://ec.europa.eu/internal_market/insurance/docs/solvency/solvency2-conference-report_en.pdf) (accessed on 13 October 2006).

population to access insurance services? Supervisors can directly influence the development of microinsurance by aligning regulatory and supervisory practices to its specific characteristics. Such interventions might include:

- adjusting rules and regulations, as well as supervisory practices to the particular situation of microinsurance;
- requiring disclosure regarding involvement in microinsurance from regulated risk carriers;
- providing greater market analysis on market needs, which may motivate insurers to go down-market;
- regulating new distribution channels that are familiar with, and have the trust of, low-income households;
- incentivising or even mandating risk carriers which are unregulated (Category 3) or under other authorities (Category 2) to become licensed;
- creating grievance channels and resolution systems appropriate for low-income policyholders;
- increasing policymakers awareness of microinsurance; and
- ensuring that products and procedures are tailored to the needs of low-income households
- facilitating dialogue with policymakers (especially on tax issues or social security schemes) in case these services have features which are counterproductive to private-led microinsurance
- promoting customer awareness and understanding of insurance; and
- improving product development to meet the needs of low-income groups (which in some cases has led to product regulation).

121) The development of the microinsurance market presents a number of inherent challenges for the supervisor. Unlicensed insurance schemes can do harm, especially for low-income households. Therefore, supervisors can define a threshold beyond which informal schemes have to have an insurance license. The criteria used in drawing the line between regulated and unregulated entities depend on the country situation – number of customers, premium volumes, or even supervisors capacity. For example, while a scheme of 50,000 members may be small in one jurisdiction, it may be quite significant in another.<sup>28</sup>

122) Supervisors are also challenged to strike the balance between extending insurance to the low-income segments and protecting the investments and confidence of these households. The capacity of the supervisor is a critical element here, especially since supervisors may have priorities that are more pressing.

123) To prevent regulatory arbitrage, it would be useful if one agency was responsible for supervising insurance activities, instead of having multiple ministries or government departments involved. It can also help to develop an activity-based approach, rules and regulation which are valid for any type of supervised insurance provider.

124) The supervisor has a number of regulatory options for structuring a regulatory framework for microinsurance. As laid down in point 57 the array of options include introducing a new type of agent like in India; creating a new institutional type, like in the Philippines (Microinsurance Mutual Benefit Associations) or in South Africa (Funeral Microinsurance License<sup>29</sup>); regulating microinsurance as a business line for commercial insurers and an array of agents such as in Peru, and facilitating dialogue and product

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<sup>28</sup> Drawing lines (based on number of clients or value of policies) can make it difficult to avoid arbitrage (e.g. divide the company when it has reached a certain limit).

<sup>29</sup> Funeral Microinsurance is currently termed "Assistance Business" in South Africa.

regulations and let the industry react, like in Brazil. Letting other authorities take care of a specific type of microinsurance provider (health care mutuals) such as in West Africa is another option.

125) In terms of the overall approach to microinsurance regulation, two main strategic lines can be distinguished: the activity-based versus the institutional approach of regulating microinsurance, as summarised in Table 3. A combination of both approaches is possible.

**Table 3. Functional versus institutional regulation of microinsurance**

| Approach   | Functional Regulation   | Institutional Regulation  |
|--|---|---|
|  | Microinsurance as an activity line, also called activity-based approach   | Microinsurance as an institutional type, also called institutional approach   |
| Description  | All institutional types of microinsurers (those under the insurance law but also institutions under other laws) have to follow two set of rules: <ol style="list-style-type: none"> <li>a) The same rules and regulations as far as certain aspects of microinsurance provision are concerned.</li> <li>b) In terms their particular institutional type, they follow the rules defined for it.</li> </ol>                                     | A risk carrier can obtain a license as a microinsurer which is separately regulated e.g. like the <ul style="list-style-type: none"> <li>• MBAs in the Philippines under the Insurance Law</li> <li>• upcoming health microinsurers in West Africa with a separate regulation and supervisory body</li> </ul> A specialised microinsurer can also be regulated as joint-stock company, e.g. requiring lower minimum capital than large conventional insurers. Examples under this model are only known from microfinance. |
| Which rules and regulations can be specifically defined? | Microinsurance defined as an activity line can have the following specific requirements that are valid regardless the institutional type: <ul style="list-style-type: none"> <li>• reporting</li> <li>• underwriting</li> <li>• transparency</li> <li>• resolution of disputes</li> <li>• agents or other delivery channels</li> <li>• claims handling</li> </ul> This list provides some examples and must be tailored to each jurisdiction. | For a new institutional type of microinsurer, specific regulations can be developed, e.g. for <ul style="list-style-type: none"> <li>• governance</li> <li>• minimum capital</li> <li>• on and off-site supervision</li> <li>• investments</li> <li>• agents or other delivery channels</li> </ul> this can be either lower or higher.  |
| Advantages   | All insurers deal with their microinsurance portfolios in the same way. Regulatory arbitrage is minimised.  | A specialised type of microinsurer, e.g. with lower entry requirements and limited operations allowed can be created.   |

Source: Wiedmaier-Pfister (GTZ, 2007). .Adapted from Mommartz.

126) From the analysis of regulatory approaches for microinsurance activities for this paper, a number of lessons can be drawn. The most important one is the development of a regulatory framework for microinsurance using a principle-based approach which is consistent with the IAIS ICPs, and also takes into account both the activity-based and institutional aspects.

127) Microinsurance regulation involves a range of issues depending on the type of peril that is insured, the profile of the insurer and the distribution channel that is used. These differences have ramifications while choosing the type of regulation and supervision that will be most appropriate. Therefore, “regulation of microinsurance” is a complex task, with

many different issues and actors involved at the various levels of the industry (macro, meso and micro).

128) Creating a new institutional type may be wise in some situations; however, this approach requires a thorough analysis of challenges and options, and significant capacity at the level of the supervisory authority.

129) Regulation of microinsurance aims foremost at consumer protection, besides protecting the stability of the financial system, which was the argument in microfinance regulation dealing with saving and credit. It may be helpful to look at the lessons from microfinance regulation where a number of generally accepted “practical principles” were developed such as:<sup>30</sup>

- Do not regulate what you cannot supervise.
- Where possible, base specific rules/ principles on activities rather than institutional types.
- When setting minimum capital requirements, balance the promotion of the sector with limitation of the number of providers that need to be supervised.
- Experimentation in product offerings is one factor that allowed microcredit to grow into a sustainable industry.
- Microfinance refers to different types of providers and is therefore not tied to one institutional type.
- New institutional types (also called categories or tiers) bring the risk of regulatory arbitrage.
- Careful design of a regulatory framework takes time and considerable resources.

130) At a minimum, supervisors should increase their awareness about microinsurance, recognising that low-income households and other excluded groups are insurable and are not necessarily more complicated clients. Often, the providers and the policyholders are new to each other and appropriate products and systems are not yet developed. Regulatory activism is not necessarily required, but open minds are.

131) To summarise, the following questions<sup>31</sup> are of concern to supervisors:

- How adequate are the regulations in terms of safeguarding the interests of microinsurance clients as well as ensuring the growth of the industry?
- Do they hinder microinsurance development? If yes, then in what ways? What can the regulatory framework contribute to encourage informal insurers to formalise their provision of microinsurance services? Which types of institutions are favoured or hindered by the present regulatory framework?
- How can the cost of regulation and supervision be minimised, while at the same time ensuring quality services and not overburdening the industry?
- Are there minor adaptations to the regulations which could bring along significant improvements? Or, how could a tiered system of regulation and supervision for microinsurance be developed?

132) These questions highlight some of the most pressing issues in the regulation and supervision of microinsurance. The next section links the issues raised above to the Insurance Core Principles (ICPs) that the IAIS has issued and insurance supervisors globally accept.

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<sup>30</sup> Adapted from Hannig A., Katimbo-Mugwanya E, (1999): How to regulate and supervise Microfinance (GTZ FSD Programme Kampala).

<sup>31</sup> Adapted from Wiedmaier-Pfister (2004): Regulation and Supervision of Microinsurance, (GTZ, Eschborn).

## 4 Microinsurance and IAIS Insurance Core Principles

### 4.1 Regulatory and supervisory regime

- 133) Extending the reach of insurance services to a broader spectrum of the population, i.e. low-income households, has the potential of creating many tangible benefits.
- 134) Indeed, as highlighted in Box 3, microinsurance can be regulated as an activity line (functional regulation) by various types of providers. Microinsurance can also be provided by a specialised institutional type of microinsurer, which only deals with the low-income segment (institutional regulation). Both approaches can also be implemented simultaneously; they are not mutually exclusive. The potential for regulatory arbitrage through the use of microinsurance vehicles should be closely examined.
- 135) Supervisory authorities should assess how they can contribute towards developing and overseeing microinsurance activities while simultaneously continuing to promote safe and sound financial systems.
- 136) Insurance is a capital-intensive industry requiring large start up costs and financial commitments, modern technology and a well-educated workforce. It also depends upon a policy, institutional and legal framework for financial sector supervision in place, a well developed and effective financial market infrastructure and the existence of efficient financial markets. The lack of any or a combination of essential conditions could affect the quality and efficiency of insurance supervision<sup>32</sup>. This is particularly true in developed economies. However, in emerging market jurisdictions, this situation may not be always prevalent.
- 137) Monetary stability, opportunity for investments, a politically and economically stable environment and a sound consistent, favorable and fair regulatory system might not be available in all emerging markets.<sup>33</sup> In many jurisdictions of Asia, Africa and Latin America the insurance market is either non-existent or grossly underdeveloped. Therefore, a major need specific to emerging markets is to encourage the development of a strong insurance industry, which may even include microinsurers operating on not-for-profit basis. This includes promotion of sound financial services to create inclusive markets for the low-income segments of the population. Microinsurance could play a crucial role in developing insurance markets as they evolve from simple mass-based product offerings to customised and complex product offerings.
- 138) As far as microinsurers are concerned, there might be different conditions in place to serve the needs of low-income households in comparison to insurers who primarily target the higher income segments of the population. These insurers are often constrained by their limited knowledge of this market segment. In addition, where informal insurance providers exist it might require a lot of effort on their part to adapt themselves to regulatory requirements. The supervisor therefore needs to take the specifics of microinsurance as explained in previous sections into account while setting up regulatory and supervisory requirements.

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<sup>32</sup> ICP 1: Conditions for effective supervision, Insurance Core Principles and methodology, October 2003

<sup>33</sup> Insurance and Poverty Alleviation The cooperative advantage, Sabbir Patel, 2002, Page 11

#### **4.1.1 Prudential issues**

- 139) There is no dispute over the fact that capital requirements, including a sound and appropriate solvency regime, as is prevalent in case for insurers regulated by the insurance law, should be an essential part for the successful supervision and provision of microinsurance.
- 140) Prudential regulation (in contradiction to product regulation) has the primary objective of policyholder protection. It focuses on institutions, with the aim of protecting their solvency or viability by setting capital adequacy requirements, and systems for managing various risks and setting limits on risk accumulation for managing exposures of an insurer's balance sheet. Prudential rules are also there to protect the structure themselves as well. Prudential supervision is importantly also concerned with preventing a problem in one institution from spreading more widely in the financial system.<sup>34</sup>
- 141) Although, such regimes benefit and protect policyholders, what could be done is to apply regulations after defining a set of interpretations on criteria specific to microinsurance. For example, setting criteria based on the risk profile in the book - risk type, and severity of the risks that a particular insurer faces or imposition of restrictions/limitations on activities.
- 142) For protecting policyholder's interests, the question of responsibility for supervision should be clearly answered. Insurance supervisors especially in emerging markets often face situations where the responsibility for supervisory oversight does not always necessarily vest with them. For example, on one hand we can find microinsurers that may be supervised by another entity like the ministry of health or department of cooperatives. On the other hand, there are also informal microinsurers that are not regulated at all. It might be necessary to assess at what stage an informal microinsurer needs to be supervised and what will happen to the institution or scheme if it is not supervised. Both types of institutions or schemes may be playing an important role in filling a gap that insurance providers, supervisors or the government might overlook. It is therefore important to develop principles which assist in identifying the entities, that need to be regulated and providing the rationale to the supervisor to justify any differentiation between the insurers regulated by the insurance laws, the ones regulated by other laws or the entirely unregulated ones.
- 143) The legal form, the manner of conduct of business and the risk portfolio of the insurer may help specify the criteria for determining the minimum amount and forms of capital that are suitable and that can be allowed. This might vary between individual insurers. The creation of a special institutional form for microinsurance with lower capital requirements - (i.e. capital commensurate to the risk in their books) coupled with caveats which restrict the scope of operations to a limited market segment - in response to the lower risk profile that microinsurance is exposed to may be one of the feasible solutions. At the same time, one needs to be careful and ensure that introduction of such regulations do not become counterproductive by permitting a scope for regulatory arbitrage. The correlation between the risk profile and capital which may ultimately justify lower capital requirements or other relaxed rules needs to be carefully determined. However, any design of specific rules to apply a solvency regime to microinsurance has to be carefully chosen so as to ensure that introduction of such regulations do not become counterproductive by permitting a scope of regulatory arbitrage. There might be an inherent risk of insolvency or non-fulfillment of legal obligations, either due to weak risk assessment or even its absence (health, environment etc.) and limited possibilities of

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<sup>34</sup> Reserve Bank of Australia Bulletin, Prudential Supervision and the Changing Financial System, April 1996, Page 30f.

risk sharing (reinsurance). A prudent approach is necessary in any case.

144) A prudential solvency regime should generally apply to all insurers covered by its scope, independent of their size or the nature and scale of their business. However, due to the special characteristics and features of microinsurance business, it seems important that supervisors have the ability to consider a wider range of factors when determining how the solvency regime should be applied to microinsurance business, for example it should be considered that

- very small undertakings typically have less complex risk profiles;
- the costs of interpreting, applying and checking compliance with regulation may be disproportionately high given the immaterial nature of the risk;
- such undertakings may provide products or services that are very specific to national markets (or even specific affinity groups), and it would not be in the interests of policyholders to cause the withdrawal of such business by imposing an excessive regulatory burden.<sup>35</sup>

The application to microinsurance business to a prudential solvency regime could be achieved through implementing adapted treatments, consistent with the overall solvency regime, whereby the application lies within the power of the supervisory authority.

145) Opinions differ regarding the form that capital requirements should take so that capital performs its buffer functions as efficiently as possible. Increasingly many insurance capital regulations currently underway aim at introducing risk-based capital requirements. The basic idea is that the more sensitive capital requirements are to an insurer's risk exposure, the more tightly it links capital in its buffer function with the potential for loss and therefore moral hazard conduct can be discouraged more rigorously. In terms of processes, managerial capacity, or expertise – it requires the setting up of sophisticated machinery which may not be affordable to all. This may hold true for companies as well as national regulators.

146) Both past and potential future events can impact the asset as well as the liability sides of the insurer's balance sheet, and the insurer's cash flow.<sup>36</sup> In some cases, adverse assessment of the risk management may well lead on to changes in the capital requirements of the companies concerned.<sup>37</sup> Insurance providers should concentrate on the significant risks they face. Risk management could serve as a controlling instrument to assess strength and weaknesses of the risks of the insurer. Therefore there is need for guidelines specifying the minimum internal controls, operating limits and other practices to ensure that investments risk exposures are maintained within levels consistent with prudential standards and risk tolerance, as defined by internal limits. It is also important to require that the hidden costs and the amount of "grants and external financial aid" in the balance sheet appears clearly so that financial reports and situation remain sound.

147) The identification and management of risks in the microinsurance environment are just as important as in the traditional insurance environment. It might be costly to expect a specialised microinsurer to have comprehensive risk assessment and management policies/systems in place. Therefore, guidance could be useful in facilitating supervisors to play an enabling role by way of setting the minimum requirements and prescribing procedures and processes for prudential risk assessment and management processes for insurers who offer microinsurance products which can be easily complied and monitored.

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<sup>35</sup> CEIOPS, Answers to the European Commission on the third wave of Calls for Advice in the framework of the Solvency II project, CEIOPS-DOC-03/06, CFA (small undertakings) 23, 23.13, page 115

<sup>36</sup> IAIS, Guidance paper on investment risk management, 2004, Page 4

<sup>37</sup> CEA, European Prudential Regulation & Supervisory Structure, 2004, Page 8



148) Even though the complexity or simplicity of a microinsurance product will vary from those provided by traditional insurance, the level of professional expertise that will be required in relation to the product should be similar to those applicable to the large insurers only in certain spheres. Guidelines should identify circumstances where actuarial certification and assistance may not be required or be more flexibly used. Particularly in cases if the insurer has the flexibility to design its products in terms of amounts insured and types of benefits offered. Also actuarial assistance may be required for verification of reserves/ liabilities.

149) Similarly a broad set of criteria keeping specificities of microinsurance need to be outlined on utilisation of chartered accountants for signing off the accounts of the insurers offering microinsurance products as well as for the purpose of external auditing.

#### **4.1.2 Governance issues (fit and proper, transparency and disclosure)**

150) Fit and proper requirements are specific requirements concerning the personal or professional qualification of shareholders, members of the board of directors and other managers. Those key functionaries should be defined by regulation. Depending on his/her position and the legal form of the microinsurer these qualities could relate to a proper degree of integrity in attitude, personal behavior and business conduct, soundness of judgment, degree of knowledge, experience and professional qualifications and financial soundness.<sup>38</sup> One needs to examine the extent to which reasonable adaptations (appropriate requirements) can be made for microinsurance particularly in case of smaller insurers possibly even operating in rural areas, which might require a different management profile and knowledge; see discussion on ICP 9.

151) In the same way, insurers having microinsurance business operations should preferably report separately on their microinsurance products to help build a credible data base for improved supervision besides compilation of comprehensive, accurate information on microinsurance for further analysis and use by policymakers, donors; see discussion on ICP 12.

#### **4.1.3 Market conduct issues**

152) Efficient and effective procedures and processes should be in place for lodging complaints and resolution of disputes between insurers/insurance intermediaries and their customers, keeping in mind that low-income households are likely to require alternative channels for communication and redress of complaints compared to mainstream insurance customers.

153) The insurance industry is susceptible to fraud both by the customers as well as the channel partners. There is a need to have a clear understanding of the areas where fraud can arise and where these are likely to differ significantly from traditional insurance. A collective effort to prevent fraud by all players could promote microinsurance.

154) Fraud can be classified into the four categories:

- by customer during underwriting or claims assessment,
- involving agents and brokers,
- involving surveyors and third parties,
- internal fraud by employees

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<sup>38</sup> IAIS, Glossary of terms, March 2006

Besides the above, there are instances where fake policies are issued by fraudsters who pose as authorised insurers/ intermediaries. Low-income households are more prone to fall into these traps in comparison to traditional insurance customers who are normally expected to have an overview of the market and have better coping mechanisms in place. Issues of trust in microinsurance could also be potentially addressed through an appropriate intermediation structure (see 3.3.7). Insurers would need to rely on distribution networks that are either supervised or if not, of recognised accountability such as international aid/relief networks as commented above. Prevention of fraud in the microinsurance context should contribute to the stated objective of minimising costs. Strategies to prevent fraud are very important to ensure that reputation of nascent microinsurance activities is not endangered. Specific coping mechanisms are also important in terms of fraud by agents and employees.

155) To reduce the risk of fraudulent activities, the supervisor should directly supervise intermediaries<sup>39</sup> actions or pass the responsibility on to the insurer or any other organisation to handle and dispose of complaints against the microinsurance intermediary with speed and promptitude. The supervisor directly supervising an intermediary may cause inspection of the office and records of any microinsurance intermediary, at any time, if it is deemed necessary.<sup>40</sup> However, such a regulatory provision can be costly and difficult to implement.

#### **4.2 Assessment of the application of ICPs against microinsurance**

156) The IAIS Insurance Core Principles provide a globally accepted framework for the regulation and supervision of the insurance sector. They provide the basis for evaluating insurance legislation, and supervisory systems and procedures, and are used for that purpose by the International Monetary Fund and the World Bank. They apply to the supervision of insurers and reinsurers, whether private undertakings or government-controlled insurers that compete with private enterprises, wherever their business is conducted. They shall therefore be the focus and form the basis of future work on the regulation and supervision of microinsurance.

157) The approach followed in preparing this section has therefore been to consider each ICP, including the essential criteria (ECs) and advanced criteria (ACs) set out in the Insurance Core Principles and Methodology of October 2003. Where the ICPs are quoted in this document, in the interests of space they are quoted only at Principle level, and reference should be made to the underlying document. This is only a preliminary analysis to identify possible issues which will help the joint working group to address for future work, and not a set of proposals for amendment or revision of the ICPs.

##### **4.2.1 Principles universally applicable**

158) The ICPs are general principles which are universally applicable. For some ICPs, adaptations in the essential criteria are not required to apply to microinsurance. These are the following ICPs:

- ICP 5: Supervisory Cooperation and Information Sharing
- ICP 7: Suitability of Persons
- ICP 14: Preventive and Corrective Measures
- ICP 15: Enforcement or Sanctions

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<sup>39</sup> Intermediaries include all those who are engaged in insurance intermediation services. (ICP 24.2)

<sup>40</sup> The Gazette of India, Part III, Section 4, 10 November 2005, Para 16(1), Page 13

- ICP 17: Group-wide Supervision
- ICP 27: Fraud
- ICP 28: Anti-money Laundering, Combating the Financing of Terrorism (AML/CFT)

159) However, as explored in the previous sections, some adjustment/s in the interpretation and application of certain criteria may be required in consultation with the appropriate IAIS Committees/ Working Parties for applicability to the microinsurance segment.

#### **4.2.2 Principles requiring further study**

160) The criteria for remaining ICPs require further analysis and possibly a different interpretation specific to microinsurance. These Principles and the issues identified as being specific to microinsurance, are as follows

- ICP 1: Conditions for Effective Supervision
- ICP 2: Supervisory Objectives
- ICP 3: The Supervisory Authority
- ICP 4: Supervisory Process
- ICP 6: Licensing
- ICP 8: Changes in Control and Portfolio Transfers
- ICP 9: Corporate Governance
- ICP 10: Internal Control
- ICP 11: Market Analysis
- ICP 12: Reporting to Supervisors and off-site Monitoring
- ICP 13: On-site Inspection
- ICP 16: Winding up and Exit from the Market
- ICP 18: Risk Assessment and Management
- ICP 19: Insurance Activity
- ICP 20: Liabilities
- ICP 21: Investments
- ICP 22: Derivatives and similar commitments
- ICP 23: Capital Adequacy and Solvency
- ICP 24: Intermediaries
- ICP 25: Consumer Protection
- ICP 26: Information, Disclosure and Transparency towards the Market
- ICP 27: Fraud
- ICP 28: Anti-money laundering, Combating the Financing of Terrorism (AML/CFT)

161) **ICP 1 Conditions for Effective Supervision: Insurance supervision relies upon a policy, institutional and legal framework for financial sector supervision; a well developed and effective financial market infrastructure and efficient financial markets.**

Although general policies are in place in many jurisdictions, there is no financial sector policy framework specifically targeting at promoting financial inclusiveness and developing microinsurance. Although insurance generally falls within the general legal framework for insurance supervision, this framework is often not specifically equipped to address the low-income segments of the population. As a result there are only a very few traditional insurers who target low-income segments. Mostly, it is the informal microinsurers who cater to the needs of the low-income segments in a limited manner and are largely unregulated.

162) Many governments are discussing plans of increasing financial inclusiveness. As a result, there might be expectations on many supervisory authorities to create an enabling environment for the development of microinsurance on sound lines. Such policy directions may also necessitate clarity on the roles and complementarities of public and private entities. In some cases governments have tried to utilise the existing insurance distribution channels and also the insurers to administer certain insurance schemes which may have a subsidy element. While insurers can assist in proper pricing of the product, the distribution channels can offer better targeting of potential beneficiaries. The legal and regulatory framework on insurance supervision often lacks clarity on how such issues need to be addressed as it has implications on the solvency regime of the insurers involved.

163) Mechanisms for accessing financial data and obtaining reliable and comparable economic and social statistics for the proper evaluation of risks are either absent or in a state of evolution. And even where it exists in some form, it might not address the needs of the low-income segments.

164) Financial markets are not efficiently working for the low-income segments. This is because low-income households lack access to or awareness of savings facilities, which leads to low levels of financial intermediation. Money and securities markets are weak. This reduces long and short-term investment opportunities for insurers with small trading volumes. A number of microinsurance schemes operate outside the existing legal framework.

**165) ICP 2 Supervisory Objectives: The principal objectives of insurance supervision are clearly defined.**

There is a lack of agreement on the market development responsibilities of the supervisory authorities. In the absence of availability of formal insurance to low-income households through regulated entities informal insurance is expanding. Since microinsurance activities remain largely unregulated, they are assumed to be outside the insurance supervisory scope. If a narrower view is taken they may be deemed to be quasi legal or illegal. Members of the public subscribing to unregulated schemes lack consumer protection. In many jurisdictions, the demand for insurance is increasing. There are concerns that if membership in informal schemes continues to increase, the schemes may become unmanageable and may result in failure in some form. This may pose a reputation risk for the supervisor and loss of public confidence in insurance.

**166) ICP 3 The Supervisory Authority: The supervisory authority has adequate powers, legal protection and financial resources to exercise its functions and powers; is operationally independent and accountable in the exercise of its functions and powers; hires, trains and maintains sufficient staff with high professional standards.**

The treatment of unregulated microinsurance entities need to be properly defined to enable the supervisor to have a clear understanding of the entities it is supposed to oversee. While informal microinsurance remains widely prevalent, the law is sometimes not clear on the powers of supervisors. In many jurisdictions the government supports some of these schemes without providing any clarity in the law. Often a multiplicity of government agencies is involved, which makes it complex.

167) Legislation must identify the authority (or authorities) responsible for the supervision of microinsurance entities, and provide it with adequate powers, functions and resources.

In a number of instances it is observed that the actual supervisory bodies are not the insurance supervisor.

168) Sometimes microinsurance schemes funded through budgetary allocations/ subsidies is dealt directly under a ministry which also has the dual responsibility of an insurance supervisor. In such cases, in their role as a supervisor they get involved in resolving conflicts and its resultant consequences — regulatory arbitrage, an uneven playing field which may have adverse consequences for the consumer.

169) Supervisory staff often lack proper understanding of the ground realities related to microinsurance. They need to be sensitised and specially trained on the peculiarities of microinsurance

**170) ICP 4 Supervisory Process: The supervisory authority conducts its function in a transparent and accountable manner.**

Supervisors will need to specifically and clearly address the supervisory aspects related to microinsurance as they tend to differ from those prevalent for traditional insurance. In this context, there needs to be more clarity on the differences between formal and informal microinsurance. While efficiently managed informal insurance may continue to function without regulatory oversight a threshold certainly needs to be defined in terms of size and funds beyond which they need to come within the purview of regulatory oversight. This will also enable informal microinsurers to gradually evolve as formal insurers and they shall then be subject to the same norms for prudential management as applicable to all regulated insurers.

**171) ICP 6 Licensing: An insurer must be licensed before it can operate within a jurisdiction. The requirements for licensing are clear, objective and public.<sup>41</sup>**

The concept of microinsurance needs to be broadly defined. The licensing norms need to recognise the different legal forms appropriate to microinsurance. There might be the need to recognise new legal forms which do not exist in traditional insurance (e.g. funeral associations and mutual benefit associations).

172) The licensing criteria for insurers who would focus solely on the microinsurance segment may need to be different from those prescribed for traditional insurers of life and property and casualty risks. In any case, business plans should be conceptually sound and there must be evidence of adequate financial resources to be made available, if required, in future. Consideration must be given to whether or not an actuarial report is required. The proposed auditor would be expected to have the necessary skills and capacity and must also review the business plan.

173) Exclusive microinsurers may be allowed to sell bundled insurance products for ensuring better economy of operations. Although the IAIS ICPs discourage composite insurers there is a strong case to examine as to how on a select basis composite microinsurance operations can be permitted on a limited scale, subject to prudential norms and defined thresholds. This will prevent proliferation of small microinsurance companies. Requiring distinct life and non-life licensing introduces additional costs to microinsurance and limit efficiencies.

**174) ICP 8 Changes in Control and Portfolio Transfers: The supervisory authority approves the portfolio transfer or merger of insurance business.**

There is a great possibility that small microinsurers may undergo changes in control as entities may be willing to acquire or take over an existing company. Portfolio transfers in

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<sup>41</sup> This ICP is only valid for specific microinsurers and not for traditional insurers who have a microinsurance business line.

the form of outstanding claims portfolios may also be a possibility. Clear guidelines need to be put in place to ensure stability of market and protection of existing policyholders if such events are to occur. Mergers of several microinsurers to a larger microinsurance company may be a sensitive process in the case of NGOs formalising due to their different governance structure and management practice in place as NGO.<sup>42</sup>

**175) ICP 9 Corporate Governance: The corporate governance framework recognises and protects rights of all interested parties.**

The supervisor requires compliance with all applicable corporate governance standards. Corporate governance refers to the manner in which boards of directors and senior management oversee and govern the insurer's business. Good corporate governance is important in microinsurance operations. However, like other ICPs, they should be applied to reflect the nature, size and complexity of the operations (i.e. proportionality in application). This would mean that all detailed requirements applicable to large publicly held companies are not necessary applied to all insurers.

The supervisors would normally require compliance with all applicable corporate governance standards. While supervisors must ensure that the boards are well managed and capable persons assigned they also need to recognise that overburdening small insurance operations with governance arrangements designed for large publicly held companies may not be appropriate and specific standards may need to be made applicable.

**176) ICP 10 Internal Control: The supervisory authority requires insurers to have in place internal controls that are adequate for the nature and scale of the business. The oversight and reporting systems allow the board and management to monitor and control the operations.**

Although microinsurance needs to be subject to the internal audit discipline, supervisors need to take into account the nature and scale of operations while stipulating the internal control requirements.

**177) ICP 11 Market Analysis: Making use of all available sources, the supervisory authority monitors and analyses all factors that may have an impact on insurers and insurance markets. It draws conclusions and takes action as appropriate.**

Whilst supervisors commit considerable resources to market analysis, the research is typically focused on the currently served market which may constitute less than 10% of the population in many emerging market jurisdictions. Supervisors should therefore investigate the under or un-served market which may include (a) investigating the extent of informal provision to assess (i) potential for formalisation of these informal players or (ii) the extent of abuse occurring in these markets which may require regulatory action, (b) determining whether barriers to accessing insurance are real (based on cost, product features or physical accessibility) or are attitudinal which may have been caused by anti-competitive practices, unfair exclusions or excessive restrictions on eligibility.

**178) ICP 12 Reporting to Supervisors and off-site Monitoring: The supervisory authority receives necessary information to conduct effective off-site monitoring and to evaluate the condition of each insurer as well as the insurance market.**

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<sup>42</sup> This has proved to be a critical issue in Microfinance mergers and formalisation processes.

Microinsurance operations may require distinct reporting that is appropriate to scale and scope of business. This is in view of the risk to external stakeholders and financial stability of the insurance market. However, the supervisor should design forms and tools to ensure adequate reports to monitor and control e.g. solvency, and to identify problems in addition to preparing market statistics and analysis.

179) Guidelines may require microinsurers to report to the supervisor and respond to the policyholder in an appropriate form and manner which might differ from traditional insurers. Guidelines should consider proper designing of the disclosure format; level and frequency of reporting by the supervisor after taking into consideration that reporting on micro portfolios may require a different approach. Reports must be signed off by designated persons within the microinsurer and must be attested to by an actuary and auditors/accountant wherever deemed necessary.

**180) ICP 13 On-site Inspection: The supervisory authority carries out on-site inspections to examine the business of an insurer and its compliance with legislation and supervisory requirements.**

Although this criterion is applicable in principle, supervisors should tailor their review to the risk profile and specific circumstances of each insurer carrying out microinsurance business. This is because a number of aspects of an on-site inspection geared towards traditional insurers are of limited applicability while inspecting microinsurance operations.

**181) ICP 16 Winding up and Exit from the Market: The legal and regulatory framework defines a range of options for the orderly exit of insurers from the marketplace. It defines insolvency and establishes the criteria and procedure for dealing with insolvency. In the event of winding-up proceedings, the legal framework gives priority to the protection of policyholders.**

Criteria for winding-up and exit from the market in case of exclusive microinsurers need to be properly established to protect policyholders' interests. The possibility of setting up a reciprocal insurance exchange and guarantee fund as prevalent in the Canadian model<sup>43</sup> may be a good starting point.

**182) ICP 18 Risk Assessment and Management: The supervisory authority requires insurers to recognise the range of risks that they face and to access and manage them effectively.**

The risk management process is dependent on the complexity, size and nature of insurance business. While some of the risk exposures in microinsurance are similar to traditional insurance, they may still differ in degree and diversity of exposure. The risks microinsurers cover are often not known or not properly assessed. This could lead to mispricing in the long run e.g. through incorrect mortality tables.

183) Although exclusive microinsurers often do not have expertise to price their risks and estimate their liabilities, this does not exclude the supervisory regime from having proper criteria in place to ensure that the microinsurance insurers have a well thought out business plan and proper expertise in place to manage insurance risk and provide adequate information on its insurance and reinsurance arrangements.

**184) ICP 19 Insurance Activity: Since insurance is a risk taking activity, the supervisory authority requires insurers to evaluate and manage the risks they underwrite, in particular through reinsurance, and to have the tools to establish adequate levels of premiums.**

The underwriting and pricing policies of traditional insurers selling microinsurance products is likely to be based on its experience in the line of business being insured or

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<sup>43</sup> Insurance Act, Canada, R.S.A. 2000, c. I-3, sec 100 (<http://www.canlii.org/ab/laws/sta/i-3/20050318/whole.html> )

driven by the reinsurance market. On the other hand exclusive microinsurers often do not have reserves/technical provisions commensurate to the risk in their portfolio. The government/supervisor may choose to put in place institutional arrangements or regulations for residual risks in case there is lack of reinsurance support.

- 185) **ICP 20 Liabilities: The supervisory authority requires insurers to comply with standards for establishing adequate technical provisions and other liabilities and making allowance for reinsurance recoverable. The supervisory authority has both the authority and the ability to assess the adequacy of the technical provisions and to require that these provisions be increased, if necessary.**

Keeping in mind the short-term nature of contracts (normally of one year but can extend up to five years), in the books of the insurers of microinsurance products, the supervisor at the time of framing regulations' needs to bear in mind the kind of liabilities that may arise out of microinsurance products including partial credit for reinsurance.

- 186) **ICP 21 Investments: The supervisory authority requires insurers to comply with standards on investment activities. These standards include requirements on investment policy, asset mix, valuation, diversification, asset-liability matching and risk management.**

Due to limited expertise available in-house; all investments of small microinsurers need to be based on prudential guidelines as specified by the insurance supervisor. However, the cost of a sophisticated investment strategy can be prohibitive for an insurer exclusively targeting the microinsurance segment. In this case, the supervisor might issue guidelines for investments based on microinsurers' specific needs. The legal form, line of business and product design of the insurer could determine the most appropriate investment strategy to follow so that it is more appropriate for the microinsurance segment. A microinsurers' investment strategy could be simple, straightforward and not require significant analysis. The government and the central bank could help designing appropriate savings instruments which take care of the specific requirements of the insurers involved in microinsurance.

- 187) **ICP 22 Derivatives and similar commitments: The supervisory authority requires insurers to comply with standards on the use of derivatives and similar commitments. These standards address restrictions in their use and disclosure requirements, as well as internal controls and monitoring of the related positions.**

Derivatives and similar commitments are risky types of transactions if they are not properly managed. It requires a fair amount of expertise and sophistication. These attributes might not exist in small regulated institutions and might therefore be excluded. In some cases, derivative instruments can be used to limit risks. In any case, exclusive microinsurers should follow a conservative investment strategy and supervisors should therefore limit investments in these instruments. A microinsurance programme that utilises derivative instruments should be required to file a plan for these instruments similar to that of a regulated entity.

- 188) **ICP 23 Capital Adequacy and Solvency: The supervisory authority requires insurers to comply with the prescribed solvency regime. This regime includes capital adequacy requirements and requires suitable forms of capital that enable the insurer to absorb significant unforeseen losses.**



A sound and well-developed solvency regime including risk based solvency requirements is a vital component of any supervisory regime for microinsurance. The minimum level of capital should be based on overall level of risk retained which may be measured in terms of risk exposure, or by size of premium income or technical provisions. Capital adequacy and solvency issues must be sensitive to the size, complexity and risks of the insurer in view of inherent differences between microinsurance and traditional insurance and there is need to examine all the relevant issues. Sufficient recognition and importance needs to be given to adequacy of security of any reinsurance arrangements in place since any failure of these will impact upon the ability to meet liabilities. Any consultations about possible changes to the insurance legislation and supervisory practices in terms of microinsurance should also include informal providers and whether they need to be regulated at all. The forms of capital to be taken into account for the insurers' financing plans must also include guarantees for future funding or other alternative forms acceptable to the supervisor.

189) Another aspect that needs to be specifically looked into is the role of donor funds and the nature of restrictions to be imposed in the form of guidelines for donors on the capitalisation of donated funds. Donor funds that often come with directives and restrictions on the type of customer they could serve, or on products and geographical areas that were more appealing to the donor than the institution. Donor funding tends to be uncertain, sometimes slow, and often not enough to finance rapidly expanding portfolios. Some believe the full regime should be applied, others believe there should be some adjustment for microinsurance. The CGAP Working Group on Microinsurance is currently working on Donor Guidelines for Microinsurance (a draft already exists<sup>44</sup>).

**190) ICP 24 Intermediaries: The supervisory authority sets requirements, directly or through the supervision of insurers, for the conduct of intermediaries.**

Requirements for selling microinsurance should be appropriate to microinsurance business and could be more flexible in interpretation, for example in terms of training requirements. However, mechanisms need to be in place to monitor their conduct.

**191) ICP 25 Consumer Protection: The supervisory authority sets minimum requirements for insurers and intermediaries in dealing with consumers in its jurisdiction, including foreign insurers selling products on a cross-border basis. The requirements include provision of timely, complete and relevant information to consumers both before a contract is entered into through to the point at which all obligations under a contract have been fulfilled.**

Since low-income households generally have a low awareness and understanding of the benefits (and pitfalls) and their financial literacy is mostly low, special care must be taken in dealing with this customer segment. The supervisor must require that microinsurance policies be made available in appropriate terms in the local language. However, beyond that, there is need to recognise new and more appropriate insurance literacy and consumer education strategies that respond to capacities of the low-income segments.

192) Special consideration of how to manage the intermediation process will be needed. This includes understanding how to balance out the need for advice-based models where the cost involved is prohibitive against the alternative of non-advice but with disclosure.<sup>45</sup>

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<sup>44</sup> [www.microfinancegateway.org](http://www.microfinancegateway.org)

<sup>45</sup> See, for example, Genesis, 2006, Brokering Change: The threats and opportunities to the intermediation of microinsurance in South Africa. Prepared for FinMark Trust and Ford Foundation. [www.finmarktrust.org.za](http://www.finmarktrust.org.za)

- 193) A periodic or ad hoc reporting to the supervisor regarding the handling of complaints/grievances might be important because of the fragile nature of the level of confidence low-income households are having in terms of insurance.
- 194) Setting up of alternate dispute resolution mechanisms for redressing grievances and complaints for the low-income segment could also be required as court proceedings can be costly and time consuming.
- 195) **ICP 26 Information, Disclosure and Transparency towards the Market: The supervisory authority requires insurers to disclose relevant information on a timely basis in order to give stakeholders a clear view of their business activities and financial position and to facilitate the understanding of the risks to which they are exposed.**  
Microinsurance information disclosure should be adequate to the needs. In the case of microinsurance business line, disclosure might be either regulated as traditional insurance (if this deems appropriate) or fall under specific such regulations for microinsurance.
- 196) **ICP 27 Fraud: The supervisory authority requires that insurers and intermediaries take the necessary measures to prevent, detect and remedy insurance fraud, and; ICP 28 Anti-money Laundering, Combating the Financing of Terrorism (AML/CFT): The supervisory authority requires insurers and intermediaries, at a minimum those insurers and intermediaries offering life insurance products or other investment related insurance, to take effective measures to deter, detect and report money laundering and the financing of terrorism consistent with the Recommendations of the Financial Action Taskforce on Money Laundering (FATF).**  
ICPs 27 and 28 are also seen by some jurisdictions as being important for further study to develop microinsurance.<sup>46</sup>
- 197) Since microinsurance programmes tend to be unusual and unique, they may not fit into traditional methods of **accounting**. This does not preclude the necessity of well considered methods for determining current and projected values of assets, liabilities, income, and expense. Appropriate disclosures should be considered in the plan of operations. Regulators should consider the possibility of combining their regulatory approaches with other forms of general purpose accounting, especially those simplified methods permitted for small and medium size enterprises in their jurisdictions. Generally, the purpose of the accounts should be a conservative and prudent presentation with a primary focus on policyholder protection.

## 5 Conclusions and Recommendations

- 198) In absolute terms, many microinsurance initiatives launched by governments, insurers and other organisations to protect the lives, health and assets of the low-income persons have made a tremendous impact, but their reach has been very limited compared to the

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<sup>46</sup> Though, microinsurance is susceptible to frauds (ICP 27) (by way of fictitious insurance contracts, impersonation etc) the possibility of Money Laundering is remote. It is also mentioned in this issues paper (Point no. 3.3.8 (85)) that policy holders of microinsurance cannot fetch the records required by insurers. In some countries Anti Money Laundering guidelines do not exempt microinsurance policyholders and there is a representation from the insurance players that microinsurance policy holders do deserve some relaxations like proof of permanent/residence and photographs. According to them there is a case for not extending the scope of ICP 28 in respect of microinsurance products.

size of the unserved population. So far, the delivery of insurance to the low-income households has not been an integral part of many financial service providers' market strategies.

199) Evidence has shown that low-income people need a range of financial services, which is affordable and yet easily accessible, and should typically include credit, savings, remittances and insurance. Without insurance, any improvements in alleviating poverty may be quickly lost due to the impact of risks.

200) The IAIS Insurance Core Principles cover the essential aspects of insurance regulation and prudential supervision. However, when applying these principles to insurance services for low-income segments, it is necessary to recognise the specifics of microinsurance and the risks posed. The starting point for creating inclusive insurance markets is for insurance supervisors to develop an enabling framework to actively support the development of microinsurance on efficient lines keeping in mind the need for providing an adequate framework for policyholders' protection and financial stability.

201) It is a major challenge for regulators and supervisors to create an enabling environment for outreach and sustainability of microinsurance: providing consumer protection for this market segment, while at the same time encouraging innovative organisational and regulatory solutions to respond to the insurance needs of low-income households. Adjustments to regulatory frameworks are sometimes incorrectly perceived as being in conflict with prudential principles with the risk of creating distortions in the market place. From the policyholder's perspective, supervisors may help to guarantee that the increasing number of unregulated microinsurance schemes remain in a position to uphold the obligations to their members.

202) The protection of poor people's scarce funds is a critical concern. In striving to find a balance that promotes inclusion without putting an undue burden on supervisors, each supervisory authority needs to consider the specific features of its own jurisdiction; there is no one solution that fits all. This is not an easy task, especially since few role models exist so far. Creating an appropriate regulatory framework is a complex task since it involves many different actors and requires a large number of strategic and operational innovations.

203) The issues identified for further consideration at the ICP level and its criteria in this paper can be grouped under five major themes:

- Supervisory review process including licensing issues
- Financial and prudential issues including risk based supervision
- Governance issues
- Operational issues
- Market conduct issues

204) All these areas are critical to the regulatory and supervisory framework of microinsurance and need to be addressed in an integrated way. It is proposed that further work should include assessing and developing features that can form the foundation for a specific guidance on the applicability of ICPs to microinsurance in each of these areas. The outcomes may then lead to developing a set of interpretations of the criteria, where required, for application of the ICPs. In this regard, the IAIS-CGAP Joint Working Group shall seek guidance from the IAIS Implementation and Technical Committees as their work progresses.

205) Further work is suggested on

- understanding operational aspects of different types of microinsurers, particularly mutuals and cooperatives in microinsurance,
- market analysis to understand the un-served and under-served segments of the population,
- adaptation of delivery channels and modes of premium payments
- the use of new technology
- the role of outsourcing
- health insurance
- complementarities with social security schemes

206) For regulatory adaptations to work, there needs to be a significant investment in capacity building at many levels. Policymakers and supervisors have to understand the risks and potential of microinsurance, therefore the transfer of knowledge and dialogue are primary concerns. Donors, international development agencies and other promoters such as insurance associations and international microfinance networks are also learning and have to be prepared to finance and technically assist supervisors as well as microinsurers. Finally, the customers who demand microinsurance services are not well educated; governments, donors and microinsurers have to assume a role in the promotion of insurance awareness and consumer education. These challenges have to be dealt with alongside the regulatory and supervisory aspects.

207) In this new era of development, many emerging markets have transformed their economies through creativity, hard work, and commitment to market reform. One also observes that due to increasing prosperity, although absolute poverty is declining, inequality is growing.<sup>47</sup> New thinking is needed to capitalise on opportunities and ensure continued and collective progress. Pragmatic, sensible solutions for inclusive financial sector development with a commitment to good governance will certainly benefit the poor. If we collaborate for producing welfare-enhancing synergies consistent with internationally accepted principles and standards for financial sector supervision and financial stability, we can envision to go further—and faster—in spreading the benefits of insurance to those who have been left behind.

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<sup>47</sup> The Two Faces of Asia: Working Together for a Poverty-Free Region, Address to the Board of Governors by Haruhiko Kuroda, President Asian Development Bank at the 39th Annual Meeting 5 May 2006 Hyderabad, India

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## Annex 2: Glossary

|                                   |  |
|-----------------------------------|--|
| <b>Agent</b>                      | A licensed person or organisation authorised to sell insurance by and on behalf of an insurance company  |
| <b>Apex Institution</b>           | An apex institution may either be a representative industry body for an industry or a second-tier or wholesale organisation that channels funding (grants, loans, guarantees) to multiple microfinance institutions (MFIs) in a single jurisdiction or region. Funding may be provided with or without supporting technical services.” <sup>48</sup>   |
| <b>Broker</b>                     | firm or individual or “an individual who arranges and services insurance policies on behalf of the insurance buyer: he or she is the representative of the insured, although the broker receives compensation in the form of a commission from the company.  |
| <b>Donor</b>                      | used in the broad sense of international aid agencies: bi- or multilateral cooperation agencies, regional development banks, foundations, and socially responsible investors, international non-governmental organisations (NGOs), consultants, and international networks   |
| <b>Inclusive financial system</b> | the integration of microfinance into formal financial system to ensure permanent access to financial services by significant numbers of poor people” (according to CGAP)   |
| <b>Insurers</b>                   | refers to commercial regulated and licensed insurers with no particular focus on the low income market   |
| <b>Insurance Supervisor</b>       | refers, as appropriate, to either the insurance and reinsurance regulator or the insurance and reinsurance supervisor in a jurisdiction. [Source: IAIS Insurance Core Principles, July 2000]   |
| <b>Insurance Intermediary</b>     | any natural person or legal entity that engages in insurance intermediation (in any medium). Intermediaries are generally divided into separate classes. (The most common types are “independent intermediaries” who represent the buyer in dealings with the insurer (also known as “independent brokers”) and “agents” (which generally include multiple agents and sub-agents) who represent the insurer.) [Related definitions: Insurance intermediation] [Source: IAIS Principles for the conduct of insurance business, December 1999] |
| <b>Microinsurers</b>              | a microinsurer is an insurer that is either entirely focused on the low-income market (institutional type of microinsurer) or an institution that has a specific product line targeted at this market (activity line). Some microinsurance providers are small or informal; others are large commercial or government backed insurers  |
| <b>Policyholder</b>               | The party to whom the contract of insurance is issued by the insurance company.  |
| <b>Regulated microinsurer</b>     | licensed by the insurance supervisor to operate as an insurer with a focus on the lower income market either in full or as a product line  |
| <b>Unregulated providers</b>      | are subdivided into two categories: a) formal ones (where established under any other law/regulation) such as cooperatives or microfinance institutions, and b) the entirely informal ones which are under no legal provision at all, such as informal funeral societies   |
| <b>Tier</b>                       | institutional category   |

<sup>48</sup> [http://www.cgap.org/docs/DonorBrief\\_05.pdf](http://www.cgap.org/docs/DonorBrief_05.pdf); DONOR BRIEF; No. 5, July 2002

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