A2ii: 10 YEARS ON

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INTRODUCTION

In the 10 years since the Access to Insurance Initiative (A2ii) was established in 2009, the world has seen some good news. By 2011, the 1990 poverty rate had been cut in half, achieving the first Millennium Development Goal (MDG) ahead of schedule. There have been remarkable improvements in health outcomes. Education and literacy also made progress, overall as well as with reduced gender disparity in some cases.[1] More people now have access to financial services: In 2017, the World Bank reported that 69 per cent of adults worldwide now have an account, up from 62 per cent in 2014 and 51 per cent in 2011. The world today is also more connected than ever before: over 3.2 billion people have access to and use the Internet, 1.8 billion do so via mobile, while 9 billion have access to a mobile connection, almost doubling from a decade ago.[2]

The insurance sector, after entering the decade with negative growth in the aftermath of the global financial crisis, is growing again, with much of the momentum coming from emerging markets. Attention is now on strengthening resilience, closing the protection gap and technological innovation, with a particular focus on harnessing the potential of technology while managing the arising risks. Insurance, having lived in the shadow of the banking and payments sectors, is now increasingly emerging as an incubator for innovation in its own right. In tandem with these developments, the focus of insurance supervisors[3] is also shifting from post-crisis recovery and standard-setting towards innovation and emerging risks.

BOX 1

A SHORT HISTORY OF INSURANCE AND INSURANCE REGULATION

The act of pooling resources to weather calamities has long featured in the history of humankind. Around 2,000-3,000 BC, Babylonian and Chinese traders and merchants shared the risk of ships and goods lost in global transit. Later, the Romans used burial societies to provide funeral expenses, where members paid an admission fee and monthly premiums to ensure those covered by the pool would have a decent burial[4]. In India, ancient legal and theological Sanskrit texts talk of pooling of resources that could be redistributed in times of calamities such as fire, floods, epidemics and famine[5].

Private insurance in its modern form is widely agreed to have made its first appearance in the UK. In 1583, a certain William Gibbons signed the earliest known life insurance policy in the world. Friendly societies then emerged in the 17th century to protect members against illness, death, or old age. From the 18th century onwards, powered

1 United Nations, The Millennium Development Goals Report 2015; and United Nations, The Sustainable Development Goals Report 2018

2 World Economic Forum, *The Global Information Technology Report 2016*

3 "Supervisors" includes regulators.

4 Masci, *The History of Insurance: Risk, Uncertainty and Entrepreneurship*

5 See the website of the Insurance Regulatory and Development Authority of India (IRDAI) https://www.irdai.gov.in/ADMINCMS/cms/NormalData_Layout.aspx?page=PageNo4&mid=2

by rising incomes, industrialisation and international trade, a thriving private market begun to take shape[6]. Actuarial techniques also began to develop in earnest around this time, culminating in the founding of the Institute of Actuaries in 1847.

Up to this point, there had been minimal regulation of insurance, save for company registration and financial reporting requirements. A turning point came around in the form of "The Insurance Controversy" in the United Kingdom in 1852, where incidents of financial mismanagement, fraud and abuse were made public. A Select Parliamentary Committee report was published in 1853 calling for more suitable regulations tailored to insurance, which "differed so much from ordinary business", in order to protect the public. The subsequent decades saw a few insurers fail. This series of events led to the coming into effect of the Life Assurance Companies Act 1870. Thus came into place the first major piece of insurance legislation[7].

Yet for all the steps forward, disparities remain. While extreme poverty is declining, the world is not on track towards achieving ending extreme poverty by 2030. A fraction of the population in some advanced economies are still extremely poor[8] . A large proportion of the developing market workforce remains in the agricultural and informal sector, but social protection mechanisms for them remain inadequate[9] . Technology and connectivity are also advancing at an unequal pace, and therefore not all countries and groups equally benefit. In many markets, access to private insurance is still a luxury from which the most financially vulnerable remain underserved or excluded. Consumer trust in insurance is low in upper and lower-income jurisdictions alike. A gap persists between developed and emerging market insurance penetration levels, as well as locally between income segments, rural and urban areas, men and women.

By the early 2000s, some pioneering supervisors were taking steps to address the protection gap between rich and poor. By 2009, India, China, the Philippines, Taiwan, Peru and Mexico already had microinsurance regulation in place. The A2ii was established in the same year, borne out of the recognition that it was important to support supervisors around the world in making regulation and supervision more supportive of inclusive insurance, while complying with global standards. The year 2012 saw the International Association of Insurance Supervisors (IAIS) publish the landmark Application Paper: Regulation and Supervision Supporting Inclusive Insurance that carved a path forward for inclusive insurance regulation. Today, 23 have regulatory provisions aimed at fostering inclusive insurance and another 25 are currently developing inclusive insurance regulations. Access to insurance is now front-of-mind for the insurance regulatory community.

The year 2019 marks the 10-year anniversary of the A2ii's founding. In 2016, the A2ii published a document looking back at how the substance of inclusive insurance regulation has evolved over a decade. This publication takes another step back to reflect, and ask: What forces of change have shaped inclusive insurance regulations in the past 10 years? What has this meant for inclusive insurance and regulatory practices surrounding inclusive insurance? What has the regulatory community achieved, and how can history guide us as we forge ahead?

6 Swiss Re, A History of UK Insurance

7 Besso, Progress of Life Assurance throughout the World, from 1859 to 1883

8 See https://ourworldindata.org/extreme-poverty#note-7

9 In low-income countries, of those in the poorest quintile, only 18 per cent are covered by social assistance and 2 per cent by social insurance. The corresponding rates increase to 77 and 28 per cent in upper-middle-income settings (World Bank, 2018)

1. WHAT ARE THE FORCES OF CHANGE THAT HAVE SHAPED INCLUSIVE INSURANCE?

In many ways, change in the inclusive insurance world is a result of profound change in other spheres. Economic and social development, technological innovation, climate change as well as evolution in broader priorities of policymakers and supervisors have all shaped the inclusive insurance market in some way or another. Examining how inclusive insurance has changed in the past decade would therefore be incomplete without addressing these developments. This section looks at the bigger picture: how has the world changed in the past decade?

1.1 Emerging markets saw substantial economic growth underpinned by national development planning

As a whole, emerging markets and developing economies (EMDEs) have seen economic growth and expanding insurance markets, while insurance penetration remains low. Seventy-one emerging markets constituted two-thirds of world GDP growth in the past 15 years[10, 11] and despite recent moderation of growth, EMDEs remain rooted in strong macroeconomic fundamentals. Alongside higher consumer spending and a wealthier, urban and educated middle class, EMDE share of the global insurance market has also grown significantly, driving global premium growth in the last decade[12]. However, insurance penetration in emerging countries remains low overall, with life and non-life both being under 2 %, compared to about 4% in advanced markets[13] . While this signifies a clear protection gap, the obvious market opportunity has attracted increasing attention from global insurers and investors.

Policymakers intensified reforms to end poverty and advance economic development planning, including through financial inclusion. In 2015, 193 members of the United Nations (UN) adopted the Sustainable Development Agenda, which aims to "end all forms of poverty, fight inequalities and tackle climate change, in an inclusive manner". Political leaders and policymakers have set out plans, strategies and resources that work towards achieving the 17 Sustainable Development Goals (SDGs), although progress varies among countries. The past decade has seen governments cement their priorities in the launch of national development plans, with commitments to improve healthcare, education, social safety nets and infrastructure. Policymakers and supervisors have also increasingly committed to financial inclusion, in many cases by setting out national financial inclusion strategies, whether standalone or part of a broader economic development strategy[14].

10 The GDP per capita of EMDEs increased from USD3,320 to USD5,260 between 2009 and 2018, while EMDE share of world GDP, at purchasing power parity, increased from 52.8% to 59.7%. Source: https://www.imf.org/external/datamapper/PPPSH@WEO/ADVEC/WEOWORLD/OEMDC

11 McKinsey Global Institute, *Outperformers: high-growth emerging economies and the companies that propel them*

12 Swiss Re, World insurance in 2017

13 As at 2017, insurance penetration rates, measured by premiums as a percentage of GDP, are 1.9% (life) and 1.5% (non-life) in emerging markets, and 4.2% (life) and 3.6% (non-life) in advanced markets. Source: http://www.sigma-explorer.com/

14 See http://www.worldbank.org/en/topic/financialinclusion/brief/national-financial-inclusion-strategies

Amidst growth, several trends bring to light social protection gaps that policymakers and supervisors will need to jointly address. Populations are ageing in Asia and Latin America, while in Africa the working-age population is growing. While EMDEs see increasing urbanisation, the agricultural sector is still substantial, where a large proportion of this are smallholder farmers. Informality, including informal micro, small and medium enterprises (MSME) , also remains high and has been relatively unchanged over the past decade, going above 90% in some countries[15]. With the growth of the gig economy in some locations, some are in fact returning to a state of informality that is not covered by social security. All these trends create gaps that either social protection mechanisms or private insurance will need to fill. Furthermore, across all the emerging cracks, women are more at risk of falling through than men[16], and in many cases financial vulnerabilities will be exacerbated by the increasing frequency and severity of natural disasters arising from climate change.

1.2 Technological advancement has altered the state and the future of the insurance industry

High-speed internet, ever-increasing data capabilities, and mobile connectivity have transformed the way insurance customers connect, consume and work. The first iPhone was launched only a little over a decade ago in 2007. Today, an entire generation of digital natives are constantly online, and their learning styles are different from generations before. Today's 3.3 billion social media users demand personalised service, real-time information and communication; fortunately or not, today's sophisticated data capabilities make it increasingly feasible for insurance providers to meet this demand. One source shows that 5 out of the top 20 most visited websites in 2018 were e-commerce websites[17]. The largest financial services firm in the world today is China's Ant Financial, with not a single branch but over one billion clients. A decade ago, it was Citigroup with 200m customers[18]. Application, or app-based technology has driven the growth of the digital gig economy in many large cities, connecting disparate, fragmented individuals with job assignments, and creating a new model of work.

The past decade has seen technology take on an increasingly far-reaching role in shaping insurance business models. Early digital innovation revolved around distribution and marketing, driven by the adoption of mobile technology and the internet. However, increased computing power and internet speed have led to the birth of frontier technologies. With the rise of FinTech[19] and InsurTech, investors, insurers, start-ups and supervisors have turned their attention to Big Data and data analytics, Internet of Things, Artificial Intelligence and distributed ledger technology. The use-cases seen so far are wide-ranging, impacting pricing and product development, underwriting, sales and marketing, distribution, claims management

15 The World Bank, World Development Report (WDR) 2019

16 In comparison with men's usage of financial services, there is a persistent gender gap: 7 % gap worldwide in accounts in financial institutions, 11 % in low income countries (The World Bank's Global Findex Database 2017). There are approximately 750 million illiterate adults worldwide – two-thirds of whom are women. Source: UNESCO, 2017

17 See https://datareportal.com/reports/digital-2019-global-digital-overview

18 van Steenis, Future of Finance

19 "Fintech" is used to describe "technologically enabled financial innovation that could result in new business models, applications, processes, or products with an associated material effect on financial markets and institutions and the provision of financial services" (Financial Stability Board, 2016).

and other support functions. For example, telematics enables pricing based on current driving and health behaviour. Blockchain is showing increasing promise in enhancing claims processes. Some business models, such as peer-to-peer (P2P) insurance[20], further shift the paradigm away from the age-old agent-broker structure. Digitalisation in banking and payments sectors, the growth of digital platforms and the increasing dominance of "Big Tech" and e-commerce companies have brought on a move towards provision of insurance via an integrated digital ecosystem[21]. If these innovations scale up, the industry could transform in a number of ways, with game-changing regulatory implications[22].

While technological innovation is clearly inevitable, it has not yet translated to large-scale affordability and access to insurance. USD9 billion in disclosed capital has been committed to over 700 InsurTech investments over the past five years[23]; however, most innovations and technology providers have mainly focused on improving administrative efficiencies of incumbent business models and insurers. Innovations are not necessarily targeted at the needs of lower-income segments. In terms of inclusive insurance, the only technology-driven innovations that have achieved some extent of scale so far are mobile and index insurance. Many countries or market segments where access to insurance is most needed still do not have the infrastructure, such as high-speed internet, or digital literacy that is needed to support technology-driven insurance. Alongside its transformative potential, such technology has also created new ethical concerns and risks. However, the fact remains that technology has progressed a long way in the past ten years, and even from early experience, some use-cases already show particular promise for inclusive insurance (See Box 6).

1.3 As the design phase of post-crisis reforms draws to a close, insurance supervisors have been reorienting their priorities

The global regulatory community gradually shifted its attention from post-crisis prudential reform towards the implementation of standards, good supervisory practices and emerging trends. In the immediate aftermath of the financial crisis, the foremost priority had been on prudential reforms coordinated by the IAIS, namely the Common Framework for Internationally Active Insurance Groups (ComFrame), Holistic Framework to assess and mitigate potential systemic risk and the Insurance Capital Standard. Ten years later, with most of the reform having been decided, attention across developed as well as EMDEs is now turning towards the implementation of standards, strengthening supervisory practices and responding to emerging trends. Supervisors are increasingly transitioning to risk-based capital and risk-based supervision, and are building the necessary capacity to do so. The IAIS has, in turn, strengthened engagement among its members, including striving to better account for the diversity of market development stages and priorities, such as inclusive insurance, in the con-

20 See "A World Without Middlemen" (GIZ 2019) and Box 6 for an overview of InsurTech models.

21 This can be seen in China, where several large e-commerce and social media companies have integrated financial services such as insurance onto their platforms. Examples include Alipay and WeChat Pay, which had an estimated 94% share of the mobile payments market in China in 2017 (van Steenis, 2019).

22 "FinTech Developments in the Insurance Industry" (IAIS, 2017)

23 Mueller, InsurTech Rising

text of complying with the Insurance Core Principles (ICPs). In line with these efforts the IAIS has also continually deepened its partnerships, including with the A2ii, to support capacity building for insurance supervisors.

While financial stability will require continued vigilance, conduct of business (COB) risk is now receiving more attention. The global financial crisis showed that systemic risks arise not only from prudential issues, but also from poor COB practices and low public confidence. Having initially focused on financial stability in responding to the crisis, the IAIS has recently been more active in developing guidance on COB supervision as well as guidance on conduct and culture, particularly against today's context of increasing digitalisation and rapid innovation. This reflects a wider movement among the global regulatory community: the Financial Stability Board made a clear statement on the link between misconduct, systemic risks and financial exclusion in the 2015 letter from its Chairman to the G20 Finance Ministers and Central Bank Governors. COB is now a universal core objective for supervisors, and jurisdictions in both developed markets, and EMDEs have implemented fundamental changes to reflect this. Some established a new specialised authority, or a new dedicated unit within the supervisory authority while others improved market conduct legislation and supervision[24].

Supervisors are also confronted with new emerging challenges, including technological innovation, building cyber resilience and addressing climate risk. In all markets, rapid technological innovation is creating new concerns about consumer outcomes[25], as well as the resilience of the insurance industry to cyber risks. A key challenge for supervisors has been treading the line between enabling innovation and development, while limiting the downside risks. With extreme weather events occurring at a higher scale and frequency, supervisors have also increasingly looked into enhancing the resilience of insurers, as well as how insurers can be a means for the public, businesses and government to manage disaster risks. Underlying all these challenges is that of capacity: supervisors across the globe are still in the process of understanding the implications of these developments, and most supervisors find they do not have adequate expertise and talent to satisfactorily do so.

Supervisors are increasingly taking on a more active role in insurance market development, whether for the sake of market growth or to contribute to national development objectives. The mandate itself is not new; many supervisors from developed and EMDEs recognise development of the insurance market as a goal[26]. However, the last 10 years has seen greater attention surrounding this role, owing to the emerging trends highlighted above, coupled with stronger economic performance and capacity in EMDEs. A number of supervisors in recent years have formalised strategies, established departments, allocated dedicated staff resources or undertaken concerted steps towards insurance market development, adopting market growth, inclusive insurance and fostering technological innovation as key objectives.

24 Calvo, Crisanto, Hohl, and Gutiérrez, Financial supervisory architecture: what has changed after the crisis? and OECD, The Institutional Structure of Insurance Regulation and Supervision

25 See the following 2018 IAIS papers on digitalisation: Issues Paper on Increasing Digitalisation in Insurance and its Potential Impact on Consumer Outcomes; Application Paper on the Use of Digital Technology in Inclusive Insurance

26 A majority of the respondents to the 2017 A2ii-IAIS review on Regulation and Supervision Supporting Inclusive Insurance Markets, which are largely EMDEs, indicated that their authorities have an explicit objective to carry out insurance development (A2ii, 2019). Some OECD member countries also have this objective (Chile, Colombia, Estonia, France for regulator, Hungary, Israel, Japan, Korea, Latvia, Lithuania, Mexico, Poland for supervisor, UK, US). The context may vary, with less developed markets aiming to raise penetration levels, while developed markets may to see certain types of products developed or drive overseas expansion of local (OECD, 2018).

The growing discussion on this topic has also created greater awareness and understanding of the great regional and national diversity of insurance development goals[27].

BOX 2

EXAMPLES OF REGULATORY ROLES IN INSURANCE MARKET DEVELOPMENT

The Securities and Exchange Commission of **Pakistan** (SECP) recently undertook significant changes to its structure and strategic planning. Inclusive insurance development was adopted as a specific objective, while InsurTech and RegTech, proportionality, and principles of sustainable insurance (PSI) of the United Nations Environment Programme – Finance Initiative (UNEP FI) were adopted as thematic objectives of the Insurance Division. A separate Market Development, Policy and Regulation Department was formed to specifically focus on insurance development and market growth to carry through these objectives. This department spearheads initiatives relating to inclusive insurance, as well as social protection at a broader level. Initiatives include looking at licensing requirements for dedicated microinsurers, proportionate Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) requirements, proposals on tax incentives for inclusive, life, and health insurance as well as reinsurance, alongside measures to strengthen social security benefits for employees through targeted requirements on compulsory insurance.

The Insurance Regulatory Authority (IRA) of **Uganda** incorporated the need to facilitate market development and innovation in their recent IRA Strategic Plan 2017/18 – 2021/22. As the strategic plan is adopted by the board, it holds the IRA accountable to delivery on the strategic priorities set out. It also sets a monitoring and evaluation framework for monitoring progress. Strategic priority 3 has been set as "to Facilitate and Promote Market Development". The department of Research and Market Development, established about two years ago as part of a restructuring process, is responsible for coordinating the proposed innovation action plan. Some of the key activities include plans to facilitate the sector's product development and innovation, as well as improving the product approval processes through the initiation, sponsorship and undertaking of research.

27 See the series of diagnostics conducted by the Department for International Development (DFID) UK in partnership with the World Bank, Financial Sector Deepening Africa (FSDA) and Cenfri in Ghana, Nigeria, Kenya and Rwanda to understand how insurance market development can contribute to sustainable and inclusive growth.
https://cenfri.org/publications/the-role-of-insurance-for-growth/

2. WHAT HAVE THE IMPLICATIONS ON INCLUSIVE INSURANCE AND REGULATIONS BEEN?

The trends observed in the past decade have had significant impact on the field of inclusive insurance. International organisations as well as national policymakers and supervisors alike now have a much greater appreciation, understanding and commitment to inclusive insurance compared to a decade ago. This section takes stock of how inclusive insurance regulations, and stakeholders dedicated to this objective, has progressed since then.

2.1 The mainstreaming of inclusive insurance

The last decade has seen increasing effort by international organisations to advance inclusive insurance or incorporate it in their work. Global work on inclusive insurance started in the early 2000s, and is today recognised as an important goal (See Box 3). One proud moment for inclusive insurance was its inclusion in the G20 Financial Inclusion Action Plan (FIAP) in 2010[28], and the subsequent 2011 and 2016 White Papers of the Global Partnership for Financial Inclusion on the role of global financial sector standard-setting bodies (SSBs) in financial inclusion. In 2012, the Financial Action Task Force (FATF) released revised Recommendations, anchored on a new risk-based approach, which explicitly recognised the relevance of financial inclusion to AML/CFT objectives. The FATF issued specific implementation guidance on life insurance in 2018[29]. Insurance is only explicitly mentioned once in the SDGs, but since their adoption in 2015, a number of organisations have set out strong cases for how insurance contributes to many of these goals.[30] Other efforts include the financial inclusion initiatives of the United Nations Capital Development Fund (UNCDF) and the United Nations Development Programme (UNDP) such as the Pacific Financial Inclusion Programme also includes and actively implements insurance-related initiatives[31].

28 The G20 Financial Inclusion Action Plan (FIAP) 2017, a revision of the earlier 2010 and 2014 editions, can be found here https://www.gpfi.org/publications/g20-financial-inclusion-action-plan-fiap-2017 . The FIAP explicitly recognised the commitments of global financial sector SSBs to support financial inclusion. The FIAP was first launched in 2010 at the G20 Summit in Seoul. The Global Partnership for Financial Inclusion (GPFI) was the platform formed to carry forward work on financial inclusion, including the implementation of the FIAP. In 2011 and 2016 respectively, the GPFI published two White Papers in examine the roles of SSBs in financial inclusion, and the challenges that arise. See:
https://www.gpfi.org/publications/global-standard-setting-bodies-and-financial-inclusion-evolving-landscape

29 In 2011, FATF recognised the relevance of financial inclusion as a means to mitigate the money laundering and terrorist financing risks of financial exclusion in its guidance paper Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion. FATF released revised Recommendations in 2012 and assessment methodology for compliance with the Recommendations in 2013. These documents introduced a fundamental change to the FATF's approach, and with it a new level of legitimacy for financial inclusion in AML/FT regimes. For FATF's specific implementation guidance on life insurance see
http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/RBA-Life-Insurance.pdf.

30 Gonzalez-Pelaez, Mutual microinsurance and SDGs: An impact assessment following Typhoon Haiyan

31 For instance, see http://www.pfip.org/about-us/pfips-journey-reach-1-5-million-pacific-islanders-march-2017/

BOX 3

A SHORT HISTORY OF FINANCIAL INCLUSION AND INCLUSIVE INSURANCE

Long before financial inclusion emerged as a global policy priority, there was microcredit: In 1974, Muhammad Yunus was moved by famine in Bangladesh to lend US$27 to a group of 42 families so that they could make items for sale without relying on predatory lending[32]. Two decades later, the first Microcredit Summit took place in Washington, thus securing the place of microcredit on the global development agenda.

Over the years, it became increasingly evident that loans were not a silver bullet, but rather a full suite of financial services were needed to address the needs of the poor–savings, credit, insurance, payments, and remittances. Kofi Annan in a speech in 2003 called for an 'inclusive financial sector' that ensures access of the excluded to financial services, namely, savings, credit or insurance. Terminology and thinking gradually settled on 'microfinance', technically defined as the provision of diverse financial services in small denominations (credit, savings, insurance, remittances, money transfers, leasing) to poor and low-income people. Accordingly, in time providers of such services came to be termed "microfinance institutions" (MFIs).

Even with this broader concept however, discussions still revolved primarily around around loans and savings: the UN declared the year 2005 as the year of microcredit, where other financial services were discussed but credit took up much of the focus. However, by this time a paradigm shift was already occurring–practitioners were moving from strengthening discrete microfinance projects to building sustainable MFIs, and then to building inclusive financial sectors. Inclusive finance "recognises that a continuum of financial services providers work within their comparative advantages to serve poor and low-income people and micro and small enterprises"[33]. For sustainable microfinance to become a reality, financial services for the poor had to be "integrated into overall financial systems"[34].

Parallel to these developments, microinsurance had been quietly carving its own little corner in history. The early 2000s started to see traction in the private sector, as a few large global insurers started offering microinsurance products. In development literature, one of its earliest defining appearances was in the 2003 Preliminary Donor Guidelines on Microinsurance published by the Consultative Group to Assist the Poor (CGAP) Working Group on Microinsurance, which was formally established in 2002. The document states that while there have been positive outcomes of work to improve the economic status of the poor, one gap remained unaddressed: the significant risks faced by people on the economic margin. It also sets out a case for how microinsurance is distinct from other types of microfinance.

32 See https://www.grameen-info.org/history/

33 See the UN "Blue Book" Building inclusive financial sectors for development

34 See the CGAP "Pink Book" or Good Practice Guidelines for Funders of Microfinance

Thus it was only about less than two decades ago that inclusive insurance began its journey into becoming truly mainstream. From the mid-2000s on, development practitioners, policymakers and supervisors started taking a more integrated approach to financial inclusion and financial sector development planning. In 2005, India widened its focus from extending credit to the poor, to financial services to the poor and also issued the first microinsurance regulations in the world. In 2006, the IAIS and the CGAP Working Group on Microinsurance agreed in their first meeting in Basel to establish a Joint Working Group (JWG): the IAIS-CGAP JWG on Microinsurance. The Impact insurance Facility of the International Labour Organization (ILO) (previously known as the Microinsurance Innovation Facility), was launched in 2008. In 2009, the CGAP Microinsurance Working Group was formalised as the Microinsurance Network. That same year, the A2ii came into being.

Inclusive insurance is now a core policy objective among supervisors. Most supervisors who responded to the 2017 A2ii-IAIS review on inclusive insurance regulations have, or are in the process of formalising, financial inclusion as a national objective. Inclusive insurance today is also widely included in national financial inclusion strategies (NFIS)[35]. Broadly comparing to 2013, few jurisdictions had a policy on inclusive insurance. Most respondents to both surveys were from EMDEs; however, developed countries have in recent years increasingly voiced concerns about the protection gap in their jurisdictions. The target segments tended to differ; developed markets have been typically more concerned about insufficiency of coverage, or specific risks and target groups such as old-age security, climate-related incidents or long-term illnesses[36].

Access to insurance has also been increasingly discussed within the context of broader policy spheres. Development work and policymakers have increasingly woven the perspective of risk and resilience into strategies for sustainable development[37], where inclusive insurance is a piece of a larger risk management puzzle. Insurance has gained more ground as an instrumental tool for disaster resilience[38], social protection and old-age security, agricultural development and poverty alleviation. Insurance supervisors across all markets increasingly seek to coordinate with supervisors of other sectors, such as by entering into Memoranda of Under-

35 In 2018 the A2ii and the Alliance for Financial Inclusion (AFI) conducted a survey "Inclusive Insurance in National Financial Inclusion Strategies". The survey found that the topic of insurance was included in the NFIS of 27 out of the 30 countries who have or are in the process of developing a NFIS. Out of the 27, 17 cite insurance as a main pillar of the NFIS.

36 For example, see (i) UK Parliamentary report from 2016–2017
https://publications.parliament.uk/pa/ld201617/ldselect/ldfinexcl/132/13202.htm
(ii) a 2018 IAIS-Sustainable Insurance Forum (SIF) Issues Paper on how climate change is affecting and may affect the insurance sector, including consumers:
https://www.iaisweb.org/page/supervisory-material/issues-papers//file/76026/sif-iais-issues-paper-on-climate-changes-risk

37 For country examples, see the World Bank's World Development Report (WDR) 2013: Risk and Opportunity: Managing Risk for Development here
https://openknowledge.worldbank.org/bitstream/handle/10986/16092/9780821399033lowres.pdf?sequence=1&isAllowed=y

38 The disaster resilience workstream in particular has recently seen more momentum, with governments, donors, international institutions and the industry drawing together on initiatives such as the InsuResilience Global Partnership, the UNEP Principles for Sustainable Insurance, the Insurance Development Forum and Ocean Risk and Resilience Action Alliance.

standing[39]. This is in recognition that increasing digitalisation and innovation means that insurance regulations could not be developed independently from telco, data protection and e-commerce rules, to name only some of the most relevant bodies of regulation. With the higher prevalence of cross-sectoral product offerings such as payment platforms linked to banking and insurance services, supervisors have been moving towards greater alignment among the different financial sector regulations.

BOX 4

KEY FINDINGS FROM REVIEW ON REGULATION AND SUPERVISION SUPPORTING INCLUSIVE INSURANCE MARKETS

In 2017 the IAIS and A2ii jointly conducted an assessment on the supportiveness of insurance regulations and supervision for financial inclusion. The basis was the IAIS' 2012 Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets. 53 authorities across all regions responded, most of whom are EMDEs.

- About half recognise access to insurance as a tool to advance other policy goals such as social protection, healthcare, poverty alleviation, agricultural development, disaster risk and resilience and aging population.
- About two-thirds have an explicit government objective to achieve financial inclusion, half of which specifically address inclusive insurance.
- About two-thirds have an explicit objective towards, and have the lead role in, carrying out insurance market development.
- About half have, or plan to have, proportionate regulations for inclusive insurance. Focus areas are mainly in product oversight and approval, conduct of business, intermediaries, review and reporting, and AML/CFT.

2.2 Greater engagement among insurance supervisors surrounding inclusive insurance

The IAIS has deliberately made changes to its structure and strengthened its partnerships to enable more focus on inclusive insurance. Work in the IAIS had initially begun through the Subgroup on Micro insurance and the IAIS' participation in the IAIS-CGAP JWG on Microinsurance which was established in 2006. In 2009, the IAIS joined hands with BMZ, CGAP, the ILO (represented by the International Labour Office, subsequently renamed the Impact Insurance Facility) and FinMark Trust to launch the A2ii, as a platform to strengthen capacity of policymakers, regulators and supervisors towards using good regulation and supervision to foster

39 For example, the Office of Insurance Commission of Thailand in 2016 reported signing Memoranda of Understanding with various authorities such as the Office of The National Broadcasting and Telecommunications Commission, Department of Disaster Prevention and Mitigation, Bank for Agriculture and Agricultural Cooperatives, Bangkok Mass Transit Authority and Royal College of Surgeons of Thailand to enable coordination of regulatory measures as well as joint efforts to promote public awareness on risk management and insurance. See http://www.oic.or.th/sites/default/files/publication/files/phaasaaangkrs.pdf

access to insurance (see box below). 2011 marked the establishment of the Financial Inclusion Subcommittee (FISc)[40], precursor to the Financial Inclusion Working Group (FIWG), further strengthening the focus of IAIS members and standard-setting activities in financial inclusion. FIWG Chairpersons and Acting Chairpersons over the years have been Brazil, Morocco, India, CIMA and Slovenia.

BOX 5

A SHORT HISTORY OF THE A2II AND RELATIONSHIP WITH IAIS

"The purpose of the Initiative is to strengthen the capacity of policymakers, regulators, and supervisors seeking to advance insurance market access by promoting sound, effective and proportionate regulation and supervision of insurance markets that will facilitate the growth in availability of insurance products appropriate for low income consumers."

"The Initiative assists in the application of insurance supervisory material in specific circumstances and provides support, in particular to emerging markets, in the implementation of ICPs and standards in micro insurance. In conjunction with the G-20 and other initiatives, it helps to develop and maintain sound insurance markets by coordinating technical assistance and support in terms of country diagnostics, country coaching and capacity building."

IAIS Annual Report 2009-2010

In 2006, the IAIS and CGAP Working Group on Microinsurance established the IAIS-CGAP JWG on Microinsurance to facilitate knowledge exchange on regulation and supervision in microinsurance market development. The CGAP Working Group on Microinsurance had been established in 2002, comprising donor organisations, multilateral agencies, non-governmental organisations, private insurers and other interested parties. In 2009, this working group became formalised as the Microinsurance Network. Accordingly, the IAIS-CGAP JWG was renamed as IAIS-Microinsurance Network Joint Working Group on Microinsurance[41].

That same year, the IAIS, the German Federal Ministry for Economic Cooperation and Development (BMZ), CGAP, the ILO (represented by the International Labour Office, subsequently renamed the Impact Insurance Facility) and FinMark Trust joined forces in establishing the A2ii, with seed funding from BMZ. It was agreed that the A2ii would be hosted by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ).

40 The Financial Inclusion Subcommittee was set up to "promote the application of the ICPs and other supervisory material to support regulation and supervision of inclusive insurance markets. FiSC's mandate is to promote the application of the ICPs and other supervisory material to support regulation and supervision of inclusive insurance markets, and for other forms of insurance, particularly in emerging markets and developing economies" Source: 2011-2012 Annual Report of the IAIS

41 Throughout the rest of this paper this JWG shall be referred to as the IAIS-Microinsurance Network JWG

Over the years, A2ii has increasingly strengthened its partnership and alignment with the IAIS. In 2013, the A2ii moved into its second phase, from generating knowledge towards supporting capacity building. Alongside this shift, the A2ii became the implementation partner of the IAIS in enhancing access to insurance. This phase entailed stronger cooperation with the IAIS in financial inclusion activities, the first major joint initiative being the Self-Assessment and Peer Review on financial inclusion. The A2ii and IAIS further cemented the partnership when the A2ii opened an office in the IAIS premises in Basel in 2015.

Today, the A2ii and the IAIS Implementation Committee mutually consult on their respective work plans and collaborate on a number of capacity building initiatives. As a longstanding member of the FIWG, the A2ii also contributes to the development of IAIS supervisory material and papers. Another recent joint achievement was the completion of the 2017/2018 Review on Regulation and Supervision Supporting Inclusive Insurance Markets (see Box 4). A2ii is also leading the development of the Self-Assessment Tool, which will enable supervisors to self-assess their jurisdictions against the ICPs.

In the coming years, the relationship will only strengthen: the IAIS has stated in its 2020-2024 Strategic Plan that the next five years will see a strategic shift from standard-setting to implementation. In doing so, they will continue to deepen partnerships in capacity building initiatives, including with the A2ii. This is also a reflection of how the A2ii's role has matured over the years from being centred on inclusive insurance regulatory frameworks, towards demand-driven capacity building for insurance supervisors seeking to enhance access to insurance.

Capacity-building support for EMDE supervisors, many of whom are pursuing inclusive insurance, has grown in number and diversity. There is today a much larger bank of knowledge and experience available to insurance supervisors compared to 10 years ago. These cover not only the topic of inclusive insurance, but also provide support on the fundamental tools and knowledge that supervisors need to build inclusive markets. In collaboration with A2ii and other partners, the IAIS has issued a steady stream of supervisory guidance and knowledge material on core and emerging topics tailored to EMDE needs. Additionally, the A2ii, often in partnership with organisations such as the Microinsurance Network, ILO, CGAP, the World Bank, the Asian Development Bank (ADB), the Inter-American Development Bank (IADB), the Financial Stability Institute (FSI), the Toronto Centre, FinMark Trust, Cenfri, Making Finance Work for Africa (MFW4A) and Munich Re Foundation, have worked together over the years to produce a variety of capacity building tools and platforms responding to evolving developments and needs. These include diagnostics, toolkits, consultation calls, consultative forums, inclusive insurance training, supervisory peer reviews, and, most recently, the actuarial skills training.

Diagram 1: Tracking the journey of inclusive insurance in IAIS papers

TRACKING THE JOURNEY OF INCLUSIVE INSURANCE IN IAIS PAPERS

2007

Issues Paper on Regulation and Supervision of Microinsurance

The first paper issued by the IAIS on microinsurance with the input of the IAIS-Microinsurance Network JWG. Distils practical examples and lessons from many decades of regulatory experience and international development expertise in inclusive financial sector development. Sets out a common understanding of microinsurance and a preliminary analysis of implications on regulation and supervision. Covers definitive topics spanning formalisation, proportionate regulations and distribution channels among others. In this defining paper, the IAIS defines microinsurance for the first time as:

"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."

2010

Issues Paper on the Regulation and Supervision of Mutuals, Cooperatives and other Community-based Organisations (MCCOs) in increasing access to Insurance Markets

Discusses the roles MCCOs can play in bring insurance to the underserved. Outlines key elements of MCCOs and the implications on their regulation and supervision.

2012

Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets

Built on the knowledge from the 2007 Issues Paper to provide formal IAIS application guidance. More firmly anchored on the proportionality principle, in line with the updated 2011 ICPs, which incorporated proportionality explicitly for the first time. Covers key topics such as facilitating innovation, managing transitions to formality, the role of the supervisor and regulatory definition of microinsurance, among others. Remains an essential reference paper today.

"…supervisors need to adjust certain supervisory requirements and actions in accordance with the nature, scale and complexity of risks posed by individual insurers (i.e. the "proportionality principle")."

2015

Paper on Issues in Regulation and Supervision of Microtakāful (Islamic Microinsurance)

Developed as a joint initiative with the Islamic Financial Services Board. Identifies the practices and models used for offering microtakāful products, and the challenges and potential issues arising from microtakāful transactions for regulation and supervision.

2015

Issues Paper on Conduct of Business in Inclusive Insurance

Identifies conduct of business issues in product development, distribution, disclosure, customer acceptance, premiums collection, claims settlement and complaints handling in inclusive insurance. Sets out the key features of the inclusive insurance customer's profile upon which the COB concerns are premised. This paper introduced the term "inclusive insurance", which is based on a more nuanced understanding of the target market compared to how "microinsurance" was defined before:

"...denoting all insurance products aimed at the excluded or underserved market, rather than just those aimed at the poor or a narrow conception of the low-income market. In developing countries, the majority of the population often classifies as un- or underserved. Thus inclusive insurance is a mainstream topic of relevance for the development of the retail insurance market as a whole."

The inclusive insurance customer

- *Low education levels and low insurance awareness.*
- *Low levels of disposable income.*
- *Nature of expenditures.*
- *Difficult to reach customers.*
- *A lack of trust in insurance providers and negative perception of insurance.*

2017

Application Paper on the Regulation and Supervision of Mutuals, Cooperatives and Community-based Organisations in increasing access to Insurance Markets

Provides guidance on proportionate application of ICPs recognising the specific features of MCCOs, superseding the 2010 Issues Paper. Aims to raise awareness on the role these types of organisations could play in enhancing access to insurance.

Application Paper on Product Oversight in Inclusive Insurance

Provides guidance for supervisors, policymakers and market participants on ways to implement and apply the ICPs in product oversight in inclusive insurance.

2018

Application Paper on the Use of Digital Technology in Inclusive Insurance

Provides guidance for considering, designing and implementing regulations and supervisory practices with respect to the use of digital technology in inclusive insurance, based on the COB concepts set out in the 2015 issues paper.

Issues Paper on Index-based Insurances particularly in Inclusive Insurance Markets

Provides a background on index insurance, describes practices and actual examples and identifies related regulatory and supervisory issues and challenges.

A significant part of capacity building support today comes from peer-to-peer engagement and learning among EMDEs. A decade of inclusive insurance development also means a decade of combined experience of over 40 supervisory bodies; today, many capacity building activities are led by EMDE supervisors. On the A2ii-IAIS Consultation Calls[42], a majority of the country case studies shared are drawn from EMDE experiences. A defining element of the A2ii Inclusive Insurance Innovation Lab (iii-lab)[43] experience was the peer-to-peer exchange that happened via the international workshops which provided a platform for knowledge sharing among participating countries. In addition, the IAIS' papers on inclusive insurance are drafted by groups comprising or chaired by EMDEs, based on experience relevant to their market contexts. Peer-to-peer exchange between EMDEs and non-EMDEs have also increased to some extent, given increasing convergence of interest in countries across the income spectrum in such topics as financial inclusion, technological innovation and COB.

Regulatory best practices have become increasingly anchored on close engagement and dialogue with the industry. In the past decade, the number of supervisors consulting closely with the industry in developing inclusive insurance regulatory frameworks has increased at an accelerating pace, yielding generally positive outcomes. In recent years acknowledgment among supervisors of the importance of such communication has increased observably. Concepts such as regulatory sandboxes and innovation hubs[44] were introduced on the recognition that building mutual understanding with the industry was necessary to enable innovation while identifying and mitigating emerging risks effectively. The industry needs to understand how their innovative business models fit within supervisory frameworks and objectives, while supervisors need to understand in sufficient detail how the models work in order to build the appropriate safeguards, particularly for consumer protection. The Financial Conduct Authority (FCA) of the United Kingdom (UK), pioneer of the regulatory sandbox, found that such contact has reduced the time and cost of getting innovative ideas to market[45]. This lesson equally applies to inclusive insurance, which is founded on innovation as well.

42 The A2ii-IAIS Consultation Calls are bi-monthly supervisor-only webinars that provide supervisors with a platform to exchange experiences and lessons learnt in expanding access to insurance. The Consultation Calls are held on different topics, selected based on current priorities or needs indicated by supervisors. Since its launch in March 2014, 35 Consultation Calls have taken place, with insurance supervisors from over 120 countries having participated.

43 In 2017, the A2ii piloted the Inclusive Insurance Innovation Lab (iii-lab). The lab was a 12-month process (Nov. 2017 –Dec. 2018), during which multi-stakeholder country teams came together in four countries (Ghana, Kenya, Albania and Mongolia) to identify how to provide good quality insurance to vulnerable people and small businesses. In a series of national and international workshops, the country teams – which consisted of representatives from the insurance supervisor, the insurance industry, intermediaries and the demand side – first analysed the barriers that prevent vulnerable people and small businesses from having access to insurance and then developed innovative solutions to address these barriers. A key outcome of the lab, besides the innovations and the multi-stakeholder networks that emerged within the participating countries, was the peer-to-peer knowledge sharing and practical support across countries. For a snapshot of outcomes from the lab, see: https://a2ii.org/en/project/inclusive-insurance-innovation-lab

44 See Footnote 47.

45 FCA UK, Regulatory sandbox lessons learned report

2.3 Evolution of inclusive insurance regulations

More supervisory bodies today have inclusive insurance frameworks, and understanding of "inclusiveness" has evolved over time. Over 20 supervisory bodies today have inclusive insurance frameworks, compared to 6 in 2009. For many supervisors, the development of inclusive insurance markets started with a focus specifically, or only, on low-income population segments. However, supervisors are taking a more nuanced perspective to the underserved, recognising that low income and vulnerability coincide with other factors that may hinder uptake of insurance such as gender, occupation or state of formality. This is reflected in the relevant IAIS papers: The definitions changed from "insurance that is accessed by the low-income population" in 2012 to "all insurance products aimed at the excluded or underserved market, rather than just those aimed at the poor or a narrow conception of the low-income market" in 2015 (See Diagram 1). Some supervisors today use the terms microinsurance and inclusive insurance interchangeably, but the terminology matters less than the substance: supervisors are increasingly proactively defining "inclusiveness" based on a more nuanced understanding of vulnerability in their market contexts.

Supervisors have increasingly taken a more integrated view on insurance market development rather than focusing on defined lines of business or providers. In the early years, regulatory strategies for inclusive insurance development had been shaped around products and providers[46]. Over time, experience and emerging trends revealed that many of the challenges in relation to inclusive insurance that supervisors face are not exclusive to inclusive insurance products. These include data infrastructure and data analytical capability, transitioning to risk-based supervision, solvency regimes and actuarial capacity, financial literacy, digitalisation, data protection and regulating for innovation and product value, among others. Such challenges have necessitated an integrated approach to policymaking and regulation, rather than trying to segment and separately address inclusive insurance as distinct line of business. For example, building actuarial capacity and better data infrastructure enables supervisors to conduct improved product approval and oversight. This in turns renders possible faster and better decisions on inclusive insurance products, among others, thereby enabling innovation that is beneficial to the market broadly.

Inclusive insurance regulatory approaches have achieved a wider relevance. Regulatory frameworks for inclusive insurance have generally sought to strike a balance between enabling innovative providers and distribution channels that did not fit under the existing regulatory architecture and requirements, while protecting inclusive insurance consumers. Likewise, much the debate today about innovation in insurance is centred on how supervisors can balance facilitating innovation and consumer protection. In the 2012 IAIS Application Paper, it was proposed that supervisors should enable pilots to "test an approach and learn what modifications, if any, may be needed". Today, this is the established wisdom for regulating for innovation: the financial regulatory sandbox can be seen as a formalised, structured variation of such a test-and-learn approach. Another aspect of inclusive regulatory approaches that is taking on increasing relevance in discussions on insurance regulation more broadly is COB. Inclusive insurance regulation has always been driven by a concern for consumer outcomes: product value and claims ratios, promptness of claims, ease of paying premiums given irregular incomes, and so forth. Supervisors today are starting to apply this thinking to insurance products generally.

46 A2ii, Lessons from a Decade of Microinsurance Regulation

Supervisors now have a wider range of regulatory tools and approaches in their toolbox for inclusive insurance. Rapid technological innovation gave rise to new regulatory thinking and approaches such as wait-and-see, test-and-learn, regulatory sandboxes and innovation hubs[47]. Some integrate financial inclusion as a specific objective or criteria, effectively being an additional means for supervisors to achieve inclusive insurance beyond the familiar approach of issuing inclusive insurance regulatory frameworks[48]. Technology has also unlocked new possibilities for supervisory work itself. The emergence RegTech, SupTech[49] and enhanced data analytics have introduced new ways to help supervisors optimise supervisory processes, while mobile applications and social media have opened up new ways of communicating with, educating and protecting consumers.

BOX 6

TECHNOLOGY AND ITS EMERGING POTENTIAL FOR INCLUSIVE INSURANCE

Early innovation in inclusive insurance had been centred on the search for alternative distribution channels. Insurers sought out aggregators that could provide access to a large number of customers all at once. Another element was to partner with community organisations, as these tend to be trusted by, or more invested in, inclusive insurance customers. By the first half of the decade, the key distribution channels for inclusive insurance were microfinance institutions, MCCOs, retailers, utility companies and mobile network operators (MNOs). These models have so far played a significant role in bringing insurance to previously underserved customers.

However, the rapid advancement of technology introduced new levels of potential scale and speed. In the wider insurance industry, the digital revolution started with the internet, which had enabled a "multichannel" approach. Customers were now able to do prior product research online before approaching an agent, or purchase directly from the insurer. Mobile devices and applications further enhanced the user-friendliness of online processes. By 2012, direct internet sales made up an estimated 20% of

47 (i) Wait-and-See approach: Monitoring a trend to understand it better before the regulator intervenes. (ii) Test-and-learn approach: In close cooperation with the innovator, the regulator crafts a framework to test an innovative product or technology in a live environment with safeguards and key performance indicators in place. (iii) Innovation Hubs: A dedicated point of contact for firms to raise enquiries and to seek non-binding guidance on regulatory requirements and expectations surrounding FinTech (iv) Regulatory Sandboxes: Schemes set up by supervisory authorities that offer the potential for any eligible firm to participate in the sandbox and enable companies to test innovations in a market pursuant to a plan agreed and monitored by the supervisor. From various sources; see the summary of the 2018 IAIS-A2ii-MIN Consultative Forums, InsurTech – Rising to the Regulatory Challenge.

48 For more context on the link to financial inclusion, also see the CGAP paper Regulatory Sandboxes and Financial Inclusion here https://www.cgap.org/research/publication/regulatory-sandboxes-and-financial-inclusion.

49 Regulatory Technology (RegTech) is a sub-set of FinTech that focuses on technologies that may facilitate the delivery of regulatory requirements more efficiently and effectively than existing capabilities" (FCA UK, 2015). Supervisory Technology (SupTech) is a subset of FinTech that uses of innovative technology to support supervision. It helps supervisory agencies to digitise reporting and regulatory processes, resulting in more efficient and proactive monitoring of risk and compliance at financial institutions (BIS, 2018). See https://a2ii.org/en/report/consultation-call-reports-digital-technology/regtech-and-suptech-implications-supervision

all UK personal motor insurance[50]. Between 2009 to 2016, the number of life insurance agents in India dropped from 3 to 2 million[51].

The use of technology in inclusive insurance took a different path: the most impactful digital innovation so far has been mobile insurance (m-insurance). Telcos had the client base, the distribution platform, and the customer relationship. Insurers contributed the insurance expertise, while Technical Service Providers (TSPs) brought in the innovative leadership, skills and the will needed to launch such a new business model. TSPs also took on roles that traditionally belonged to insurers such as product development, premium collection and claims administration. Today, m-insurance is the main distribution channel for inclusive insurance in Ghana.

Possibilities have now widened further with frontier technologies such as artificial intelligence and distributed ledger in the picture. A database[52] tracking InsurTech initiatives in the emerging world shows that the number of InsurTechs in emerging markets has almost doubled over the past two years. The InsurTechs in the tracker database span six categories:

- **Digital Platforms:** These replace face-to-face elements of the insurance value chain with an online service, such as online brokers, online insurers, or even back-end services to insurers[53]. This is the single largest category, with 166 insurtechs operating close to 300 ventures across the emerging world.
- **New data and analytics:** These collect and analyse data to inform insurers and TSPs about consumer needs and behaviour patterns. This category is composed of chatbots, telematics, machine learning and artificial intelligence (AI) and smart contracts.
- **Technology-enabled partnerships:** Technology-enabled partnerships refer to three-way partnerships between an insurer, distribution partner (be it a retailer, MNO, digital commerce platform or otherwise) and TSP.
- **Parametric/index-based insurance:** With its main use-case being agriculture and weather-related insurance, this is especially impactful for groups that are vulnerable to climate risk. This category uses two types of technologies: data measurement equipment and distributed ledger technology to trigger payouts based on the index. It may also use the mobile phone for interacting with the consumer.

50 Swiss Re, Digital distribution in insurance: a quiet revolution

51 EY, Global insurance trends analysis 2016. India has a strong market for insurance web aggregators. In 2017 the IRDAI launched (Insurance Web aggregators) Regulations 2017, superseding the 2013 version. See: https://economictimes.indiatimes.com/wealth/insure/irdais-new-web-aggregators-rules-to-curb-aggressive-selling/articleshow/58576757.cms

52 See Cenfri's InsurTech Tracker: https://cenfri.org/databases/insurtech-tracker/ for a database of InsurTechs in emerging markets, as well as a forthcoming publication on insurtech trends.

53 In the case of provider-facing platforms, the InsurTech builds and hosts partial or end-to-end, often white-labelled, business management software for insurers, reinsurers and/or brokers, and often include a consulting component in their service offering. This type of InsurTech is popular given its purpose of reducing operational costs for providers.

- **P2P insurance:** P2P platforms bring people together to absorb one another's risks, with each member of the group contributing premiums to insure each other's losses. The basic appeal is similar to that of mutual, except that technology enables a much larger reach and scale in connecting people.
- **Demand-based insurance:** This refers to (a) on-demand insurance where cover lasts for a pre-defined time period or for a specific event (such as travel insurance), as well as (b) pay-as-you-use insurance, which charge the customer a premium based on how much he/she uses an asset (currently mostly still limited to vehicle insurance). These rely on technologies such as telematics, machine learning and the mobile phone. Its most useful application is for sales, premium collection and claims processing. Smart contracts are sometimes used to ensure automatic payout[54].

The promise of InsurTech for inclusive insurance is still uncertain. The insurance sector has been slower to incorporate advancements in technology and data capabilities over the past ten years compared to the banking and retail payments sector[55]. Many of the gains so far have been at the systems efficiency and distribution level and the promise of such technology has yet to translate to large-scale gains in affordability or in insurers' ability to meet the inclusive insurance target market's specific needs. There is also currently little experience with the potential downsides of new technologies, such as technological exclusion, discrimination and accessibility and affordability issues. However, technology does not have to entirely transform the insurance value chain from end to end to impact inclusive insurance in a meaningful way. Three main technology use-cases stand out as meaningful innovations for inclusive customers:

- The use of the mobile phone in interacting with, educating and transacting with the consumer. This continues to play a core role in the success of any InsurTech ventures in emerging markets.
- The back-end tech systems introduced by TSPs, the category of players in the inclusive insurance value chain who commonly originate and drive innovation and sometimes lead product design. Ventures driven by TSPs account for much of the scale achieved in inclusive insurance so far.
- The use of machine learning in satellite imagery to speed up claims management in index-based agricultural insurance, therefore enhancing resilience for vulnerable small-scale farmers.

54 For instance, in the case of flight delay insurance, the payout is triggered automatically as soon as the system detects a pre-defined delay threshold.

55 Deloitte, Fintech by the Numbers.

3. WHAT HAVE INCLUSIVE INSURANCE REGULATIONS ACHIEVED?

In the past 10 years, inclusive insurance regulations have come a long way. The number of countries that have dedicated inclusive insurance frameworks grew from 6 to over 20, many of which are backed by national financial inclusion goals and strategies. A few supervisory bodies have had sufficient time to start observing the outcomes of their regulation and have begun making refinements in response to their observations. Some numbers seem positive: The Philippines and Peru rolled out the first variation of their microinsurance regulations in 2006 and 2007, respectively. A few years of regulatory and market engagements later, an A2ii-ILO regulatory impact assessment showed that 37 million policyholders had gained access to insurance[56]. A more recent study of the largest microinsurance provider in the Philippines shows that their products met their rightful purpose post-typhoon Haiyan; claims were paid, in a timely manner, and these claims were accordingly used by policyholders to recover from the aftermath of the typhoon[57].

However, other supervisors have also shared that, despite the testing of and learning from regulatory approaches over the years, impact has not been achieved as planned or envisaged. For instance, uptake and awareness of insurance have not grown as hoped, products offer poor value, servicing quality is poor, and market fundamentals remain weak, as for example witnessed in solvency constraints and high expense ratios. A question that naturally arises is therefore, why does regulation seem to enable greater inclusion in some cases but not in others? What is the actual impact of regulation and supervision on access to and uptake of insurance? If regulatory changes had not taken place, what would the situation be? Would industry offerings and business models be different? Would consumers buy insurance? Are there exogenous factors that make regulatory impact more or less positive, and what are they?

To illustrate how market forces and country context interplay with regulation and supervisory approaches to shape regulatory impact, we consider two case studies from the A2ii iii-lab participant countries. A starting assumption is that regulations and the supervisor do in fact influence industry behaviour. At the very least, just by virtue of being the rules of the game, regulations influence how insurers carry out their business, including their strategies, their business models and their products and servicing. This, in turn, influences whether consumers take up insurance and whether policyholders and beneficiaries receive adequate and timely payment of claims. Therefore, the case studies seek not to answer the question of whether, and to what extent, regulation has impact on access to and uptake and usage of insurance, but rather to explore the ways in which regulation and supervisory approaches shape industry behaviour, and by virtue of that, insurance access and uptake by excluded and underserved populations[58].

56 A2ii-ILO, Regulatory Impact Assessments: Microinsurance Regulations in Peru and the Philippines

57 Gonzalez-Pelaez, Mutual microinsurance and SDGs: An impact assessment following Typhoon Haiyan

58 This is not saying that industry behavior is the only pathway through which regulations impact access to insurance. Regulations likely impact consumers directly as well via trust, but this is beyond the scope of the case study and will be explored in the further work by A2ii.

3.1 Case study: Mongolia

The diagram (see page 26/27) sketches the history of inclusive insurance market development in Mongolia and shows how the state of the market changed alongside various market and regulatory developments over time. It draws on interviews with the Mongolia Financial Regulatory Commission (FRC) and a market player, respectively, as well as various published outputs on Mongolia[59].

What has the impact been?

Two points on the timeline stand out as potentially having visibly shaped market outcomes. First is where the inclusive insurance regulations were issued in 2014 and updated in 2015. By 2017, there were three registered inclusive insurance products on the market. A second regulatory milestone is in 2018 when FRC made changes to regulations governing the sale of electronic policies. Since then, insurers have started selling policies online, and one insurer has decided to adopt a fully digital model. To what extent have the regulation and actions of the regulator shaped these outcomes? The authors spoke to the FRC and a large industry player to obtain their perspectives on regulatory impact.

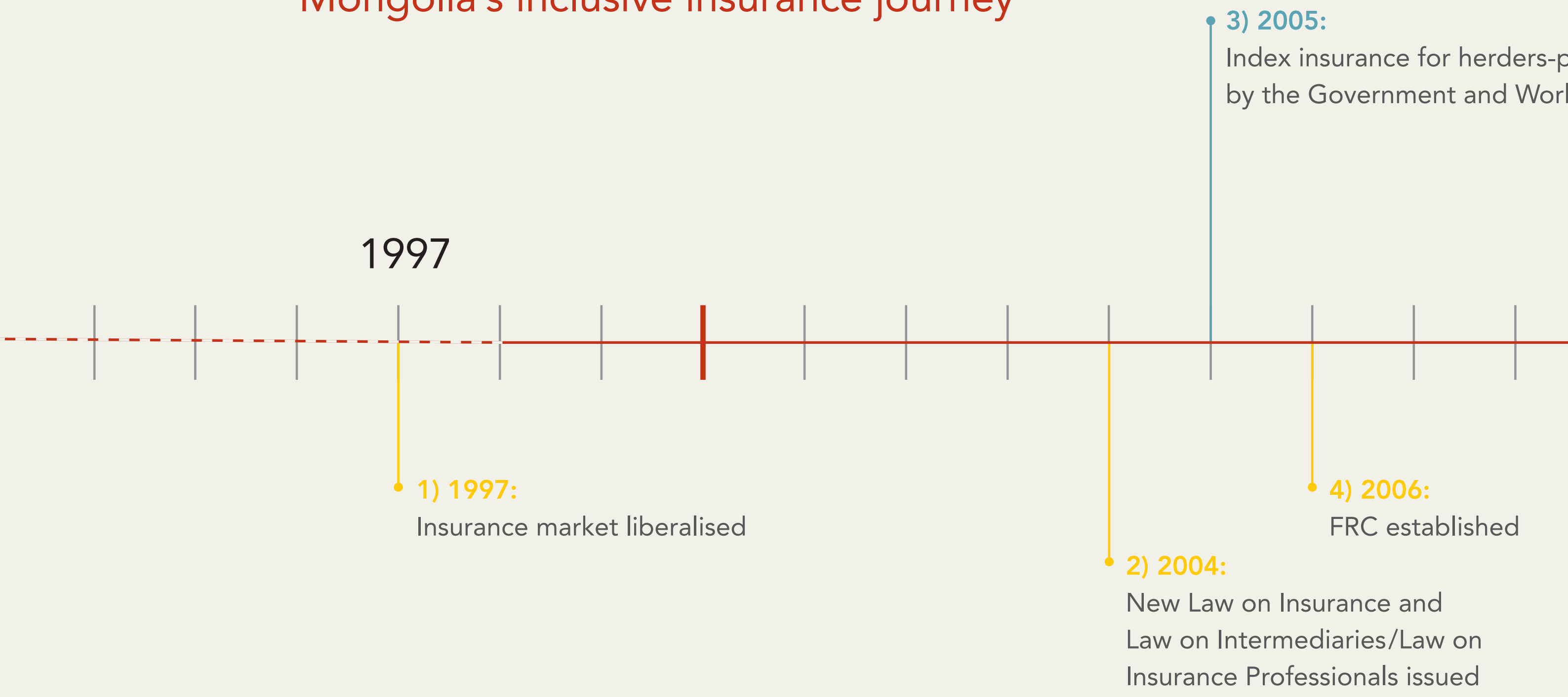
> "It is important to have a very clear roadmap and for the Financial Stability Committee to approve it. Then it becomes formal."

The **FRC** notes that there is now greater internal clarity within the regulator and among market players surrounding the interrelated yet distinct concepts of microinsurance, inclusive insurance and mass insurance. The FRC sees this clarity as an important step forward for inclusive insurance to grow. However, with regard to the availability of inclusive insurance products and uptake the FRC's view is that progress is needed. Despite regulatory and market efforts over the years, insurance penetration in Mongolia remains only 0.6% of gross domestic product (GDP). Uptake and consumer understanding are still low. The FRC views the creation of the inclusive insurance strategy in 2018 as an important milestone in the efforts to accelerate impact. Previously, inclusive insurance initiatives were implemented without a defined strategy. The FRC sees the roadmap as an anchor unifying the industry and the regulator on the vision and actions going forward. The roadmap is to be approved by the Financial Stability Committee, which includes the Ministry of Finance and the Central Bank.

> "The idea that you can sell insurance products on the internet has kick-started the flow of ideas into the market."

59 These include, notably, the diagnostic conducted by the A2ii and published by the ADB Developing the Microinsurance Market in Mongolia (Rendek and Wiedmaier-Pfister, 2014), the 2017 Regulatory Impact Assessment (GIZ, 2017) and other country updates published by the MEFIN network.

Mongolia's inclusive insurance journey



Legend

- Policy and regulatory measures
- Capacity building and peer learning
- Market starters and outcomes

Mongolia market profile

- World's second largest landlocked country
- Population of 2.83 million, widely dispersed over vast area
- Largest contributors to GDP are the agriculture and mining sectors
- Have a compulsory health insurance system for citizens in place since 1994
- Persistent culture of 'the state will provide' despite liberalisation
- Low consumer trust in insurance
- 90% of population have smartphone
- Insurance penetration still low at 0.6% of GDP, 80% being non-life
- 15 non-life companies and 1 life company
- Approximately 3,000 life policies in force, many of which are employer-based group master policies

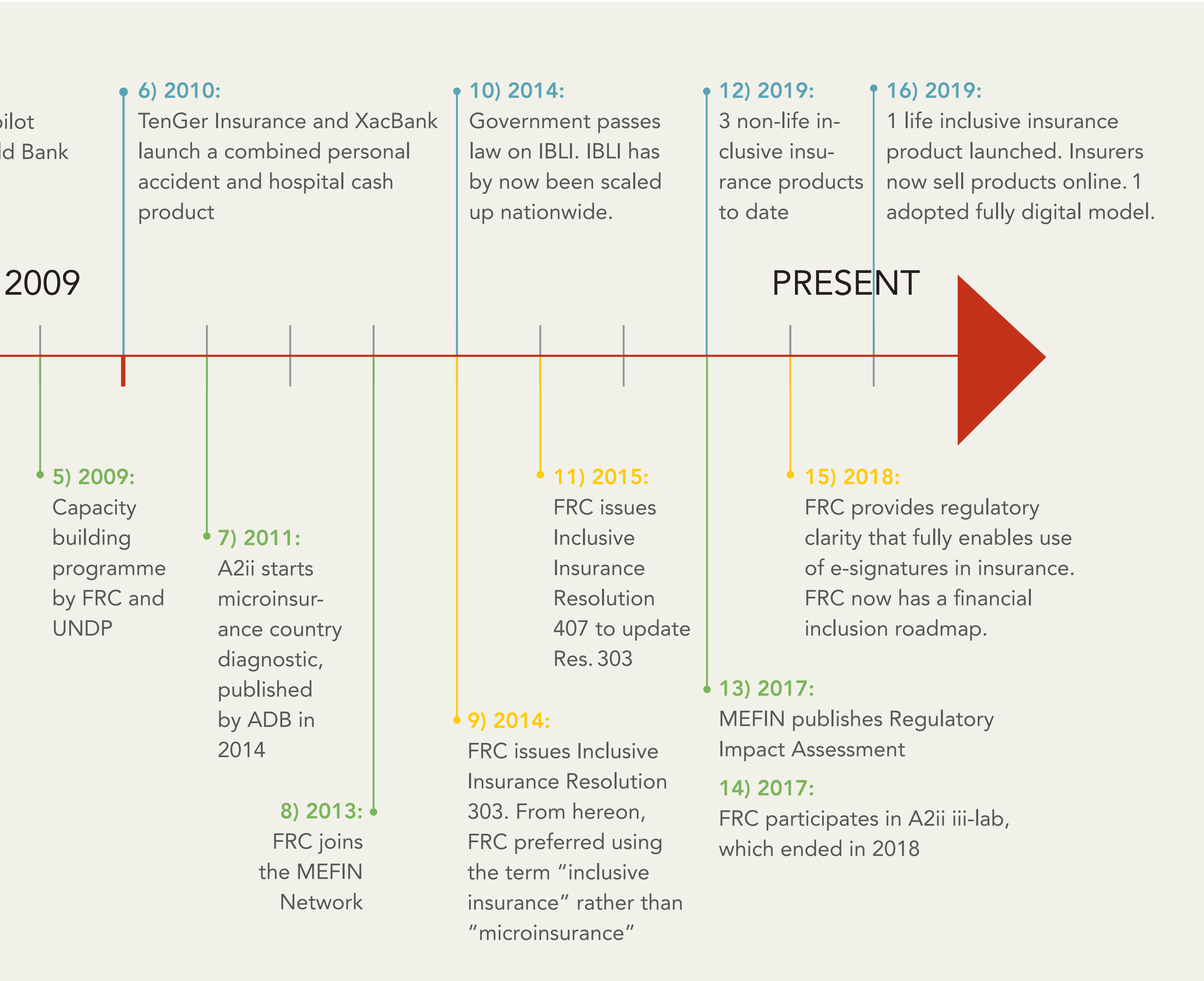


Diagram 2: Mongolia's inclusive insurance journey

Notes see next page.

Notes

(1) Prior to insurance market liberalisation, insurance was provided by the state through a national government insurance organisation. This organisation was subsequently privatised and became Mongol Insurance Company, which remains as Mongolia's largest insurer.

(2) The new law paved the way to the market entry of insurers. There was 1 life insurer by 2008 and 17 non-life insurers by the end of 2013. There is still only 1 life insurer today.

(3) & (10) The Government of Mongolia and the World Bank piloted the Index-Based Livestock Insurance (IBLI) for herders. This was scaled up nationwide by 2014, backed by legislation. This subsidised scheme was found to have improved survival rates for the livestock of policy-holding herders.

(4) The Financial Regulatory Commission (FRC) was established with expanded responsibilities over its predecessor, the Securities Commission. FRC regulates and supervises non-banking financial institutions including insurers. The FRC also licenses insurers, agents, brokers, loss adjusters and actuaries. FRC is responsible for "providing for stable and sound financial markets". Its vision is to "create a diversified, sustainable and inclusive financial system/market where fair competition is promoted and consumer protection is secured towards fostering economic growth and development".

(5) The United Nations Development Programme (UNDP) and the FRC launched a 3-year project "Capacity Development for the Microinsurance Market", which revealed some findings on consumer needs, attitudes and knowledge about insurance.

(6) Separately, supported by a grant from the ILO Microinsurance Innovation Facility, TenGer Insurance and XacBank, an MFI that is part of the same financial conglomerate as TenGer, launched a combined personal accident and hospital cash product.

(7) The A2ii-supported ADB microinsurance country diagnostic sets out pertinent contextual, supply-side, demand-side and policy/regulatory information to provide an assessment of the potential obstacles to and opportunities for microinsurance in Mongolia and a set of strategies and recommendations. Key obstacles identified include a lack of widespread, cost-effective distribution channels and inadequate technical capacity within the sector. One of the report's main recommendations is that regulatory barriers to the distribution of insurance products by other regulated financial institutions (e.g. banks and MFIs) be removed.

(8) Mongolia joins the Mutual Exchange Forum for Inclusive Insurance (MEFIN), a network of insurance regulatory authorities in Asia working for a peer-to-peer exchange of knowledge and experiences with the insurance industry.

(9) & (11) FRC issues inclusive insurance Resolutions 303 and 407, which set out a definition for inclusive insurance products and the criteria for approving inclusive insurance products. These include features such as easily understandable wordings, affordable premiums, a maximum of 5 exclusions, and claims payment within 10 working days.

(12) Although increasing from 2015, uptake of inclusive insurance products remains low. For example, in 2016, 13 children's accident insurance policies (net premium of USD 42.5) and 1,372 "Easy" ger, house, and fence insurance policies (net premium of USD 12.4,000) were sold.

(13) MEFIN conducted a Regulatory Impact Assessment set out the background and current state of the inclusive insurance market in Mongolia, some identified indicators and recommendations.

(14) The FRC, 3 insurers, and 3 other various industry representatives take part in the A2ii iii-lab from November 2017 – December 2018.

(15) The FRC resolution no. 48 "Rule of Criteria for Insurers" had allowed insurers to use e-signatures. However, national legislation still required insurers to deliver physically signed insurance contracts to consumers. FRC engaged with the Ministry of Finance, and subsequently provided confirmation to the industry that insurance could now be sold online.

(16) Insurers have started offering products online while 1 insurer has adopted a fully digital model. 1 new registered inclusive insurance product which provides cover on cancer has been launched.

The **insurer** pointed out that recent regulatory changes have indeed had a concrete and positive impact. As part of the recent A2ii iii-lab, market players identified a barrier in regulatory requirements relating to electronic contracting and digital sales. In response, FRC engaged with the Ministry of Finance and provided formal clarification to the industry that insurance could now be sold online, making online sales of insurance feasible. This has cleared the path for the entry of digital business models into the market. The market has already seen the emergence of one digital insurer, and the launch of online policies.

> "People could be interested but our pricing and servicing push people away. We are not taking the time to understand needs."

Yet it is the insurer's view that the main barrier to insurance growth lies in underlying market constraints, rather than regulatory bottlenecks. The industry is still fledgeling and therefore does not have the inherent expertise and innovation to proactively drive product design and meet consumer needs. Challenges also lie in demand. Uptake remains slow partly because of lack of trust in insurance products, but also due to the tendency for the population to rely on the Government for social protection. Interestingly, the insurer's view was that insurance education is not the role of the regulator, but rather that of insurance companies.

> "As the market develops, there could be some bottlenecks, but FRC listens."

The interviews suggest that the increased two-way engagement between the regulator and market players witnessed in recent years is a key milestone in itself. The regulator and industry player both emphasised that this dialogue has been invaluable in achieving the regulatory changes and market impact witnessed to date – most recently demonstrated by the responsiveness of the regulator to change e-signature requirements. They both also acknowledged that the A2ii iii-lab provided the space for the conversation and collaboration to take place.

In terms of **next steps**, the FRC feels there are still gaps in the framework. They have identified the development of a consumer protection and market conduct framework as an important next priority. They also identified the need for the focus to go beyond inclusive insurance to a broader strategy to stimulate innovation in the market. From the insurer's point of view, a potential bottleneck to address in the future are the requirements for intermediaries. Agency qualification requirements are perceived to be too complex relative to the simplicity of inclusive insurance products. Additionally, given low levels of demand and commission limits, agents are unable to "make a living out of insurance". Retailers are also currently not allowed to sell insurance.

3.2 Case study: Ghana

The diagram (see page 32/33) sketches the history of inclusive insurance market development in Ghana, which is noted as a global success story in achieving scale in voluntary uptake of m-insurance. The diagram draws on interviews with the Ghanaian National Insurance Commission (NIC) and four market players operating in the m-insurance space, as well as existing research material[60].

What has the impact been?

The inclusive insurance story in Ghana is largely one of m-insurance. Particularly noteworthy points on the timeline are (i) the entry of m-insurance in 2010 prior to regulations on inclusive or m-insurance being put in place, (ii) the issuing of market conduct regulations for microinsurance and m-insurance in 2013 and 2017, respectively, as well as (iii) the continued growth in the m-insurance market since to reach several million policyholders to date[61].

> "We didn't want to put rules in place that would hinder the development of a range of distribution channels."
>
> "Without TSPs who have specialist expertise in micro-insurance, building infrastructure to enable innovations would have been difficult."

The **NIC** interview confirmed that m-insurance represents 65% of policies in Ghana today and has played a significant role in bringing insurance to the underserved. All industry interviewees agreed that NIC's regulatory approach provided an adequate test-and-learn environment that had been an important factor in enabling the growth in m-insurance. The two key regulatory frameworks issued were as follows:

- The first step was a principles-based microinsurance market conduct framework, based on a qualitative definition of microinsurance and with an emphasis on opening up microinsurance distribution channels. NIC specifically mentioned having considered the impact of this framework on the industry's ability to leverage different distribution channels, and noted the importance of TSPs operating in the market.

60 This includes, notably, the Ghana case study included in the A2ii-IAIS-Toronto Centre training curriculum, as well as a recent Ghana diagnostic which is part of a series of studies conducted by DFID in partnership with the World Bank, FSD Africa and Cenfri to understand how insurance market development can contribute to sustainable and inclusive growth (Thom et al, 2018). See: https://cenfri.org/publications/the-role-of-insurance-for-growth/

61 The available statistics on the number of Ghanaians covered range widely. Nevertheless, it is clear that considerable scale has been achieved. A2ii interviews suggest that there are more than 4 million m-insurance policies in force. Estimates by the World Bank/First Initiative for 2018 put the number of microinsurance policies at 2.82 million, while NIC quotes in excess of 7 million microinsurance covers (29% of the population) in a 2017 case study. Demand-side survey data from Intermedia's 2015 Financial Inclusion Insights survey quotes a much lower number, with just 6% of the adult population covered by any form of insurance.

- Next, the emphasis shifted to the specific dispensation for m-insurance in response to market evidence. NIC had found from a landscape survey in 2014 that m-insurance had overtaken MFIs as the key distribution channel. In 2015, an assessment on m-insurance by the NIC and GIZ produced findings on market conduct issues, highlighted the peculiar risks arising from m-insurance and recommended regulating m-insurance. Again, NIC took the approach of engaging with the industry and monitoring market experience, prior to finally issuing the Market Conduct (M-Insurance) Rules in 2017.

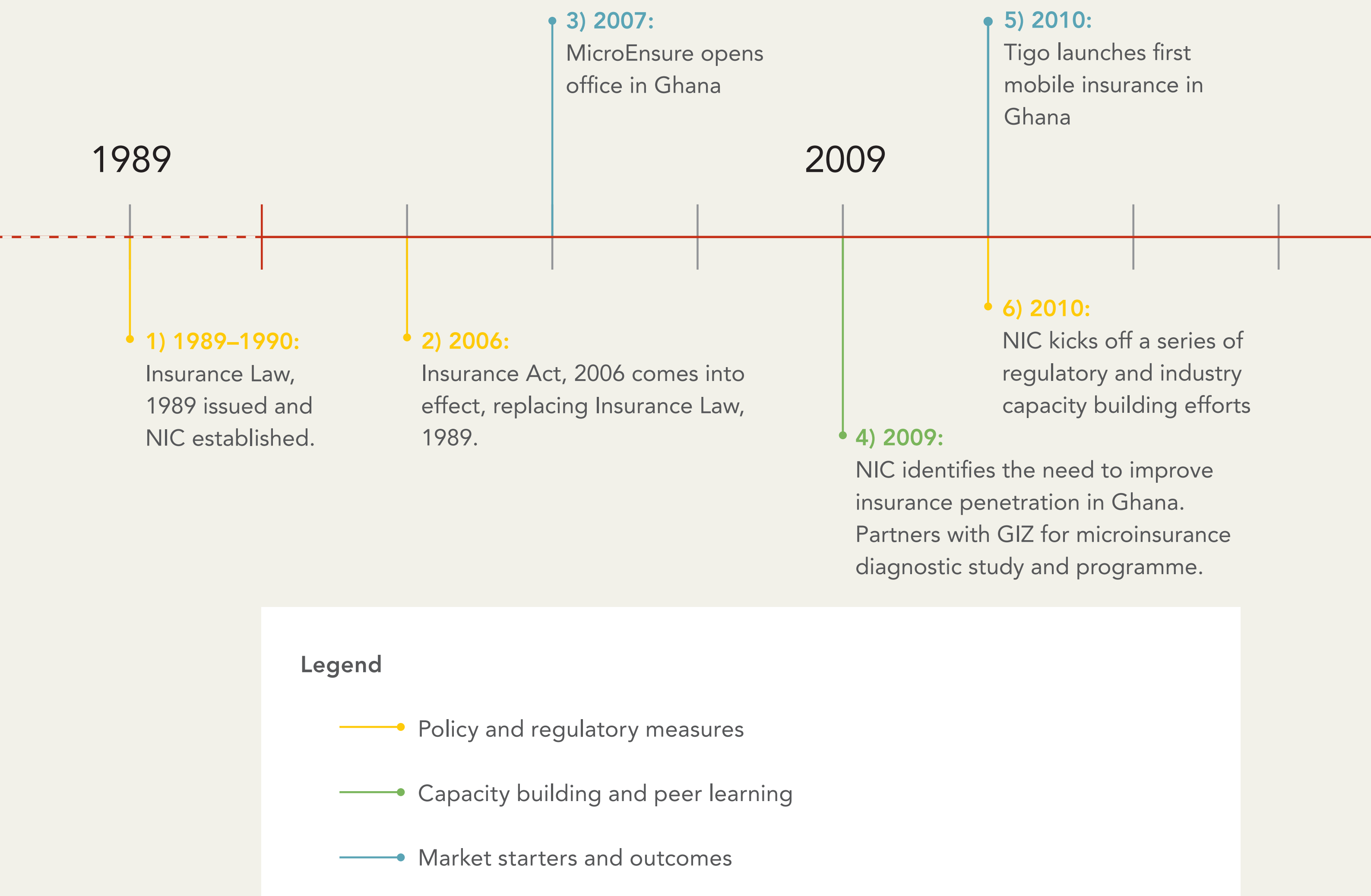
The **industry** interviews highlighted three particular areas where the Market Conduct (M-Insurance) Rules in 2017 had translated to impact on m-insurance innovation:

- The interviewees highlighted that the fact that the Rules were informed by industry consultations created flexibility and limited negative impact. One interviewee noted how the fact that the requirements on disclosure and electronic communication are outcome-based provided the company with room to work with different options such as SMS, or sharing information on the website or in brochures. Enhanced data reporting requirements also did not add to compliance costs, as it required data that they were already internally collecting and analysing.

- Due to market conduct concerns, the Rules require m-insurance policyholders to give consent to receive communications via electronic channels. One industry interviewee explained that such a move could be perceived to increase costs and restrict distribution methods. However, in effect it pushed the company into improving how they engaged with and disclosed information to policyholders, meaning that it has actually facilitated innovation to the benefit of consumers.

- Beyond NIC requirements, a prohibition by the Bank of Ghana against the use of airtime as legal tender threatened to undermine m-insurance models that rely on using airtime deductions for premium payment. In response to concerns raised by market players, NIC and industry players engaged with the Bank of Ghana and the Ministry of Finance to resolve the matter. It is now explicitly stated in the Rules that the use of e-money, airtime or other means are allowed.

Ghana's inclusive insurance journey



Ghana market profile

- Population of 29.77 million (18.35 million older than 15), 56% of which live in urban areas
- Largest contributor to GDP is the services sector, although agricultural sector provides the most employment opportunities
- Majority of Ghanaians in informal sector with irregular incomes
- 40% of the population is covered by the National Health Insurance Scheme (NHIS), but out-of-pocket health expenses remain significant. Health insurance is regulated by a separate authority.
- 27 non-life companies and 24 life companies
- Low trust and poor perception of insurance among consumers
- 54% of the population have mobile phones, and 29% have smartphones
- Insurance penetration still low at 1.14% of GDP, 55% being non-life

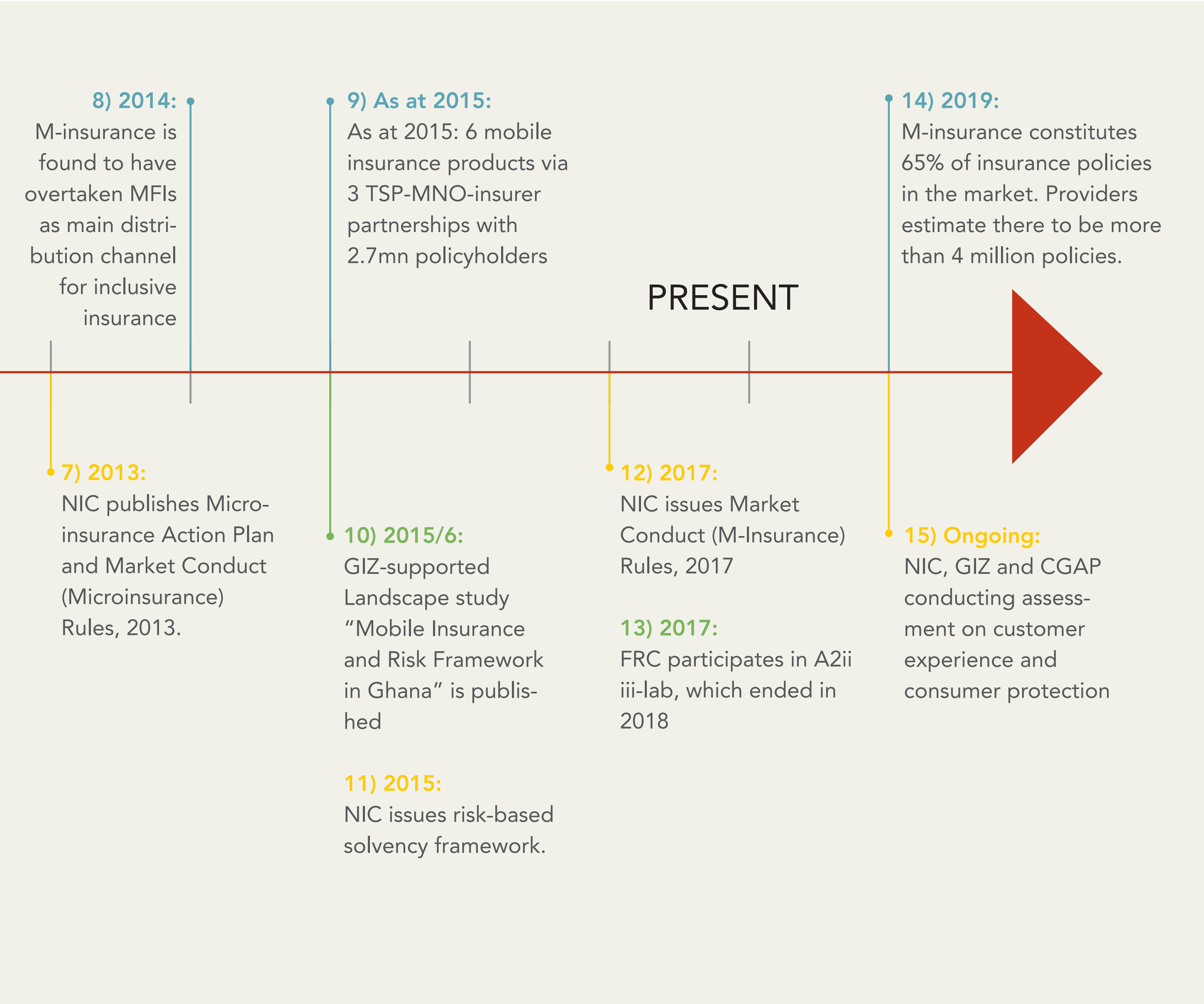


Diagram 3: Ghana's inclusive insurance journey

Notes see next page.

Notes

(1) & (2) The Insurance Act, 2006 (Act 724) replaced Insurance Law, 1989 (P.N.D.C.L. 227). NIC's object under the 2006 law is to ensure effective administration, supervision, regulation, monitoring and control of the business of insurance, to protect insurance policyholders and the insurance industry. The NIC also seeks to ensure insurers are financially sound and honour their obligations towards policyholders. This law led to structural changes in the insurance industry.

(3) MicroEnsure entered the market and partners with mobile network operators. MicroEnsure was Ghana's first and largest microinsurance intermediary.

(4) The diagnostic study was the starting point for many years of engagement and capacity-building initiatives by GIZ in its role as funding partner. The diagnostic study evaluates the state of (what was then still called) microinsurance in Ghana – the demand, supply, regulation and context. Its objective was to illuminate the potential milestones for the sector's development and recommend entry points at the micro, meso, macro and donor levels for short- and long-term support of the sector's development.

(5) BIMA, MicroEnsure and Tigo partnered to launch first mobile insurance product offering life cover (underwritten by local insurer, Vanguard Life).

(6) NIC capacity building efforts through 2010-2015 comprised activities such as sending industry and regulatory contingent to the annual international microinsurance conferences to get exposure to ideas and trends. NIC also made sure to engage with A2ii and IAIS forums – with key senior staff members regularly serving as trainers for the IAIS-A2ii-Toronto Centre supervisory training course.

(7) The Market Conduct (Microinsurance) Rules, 2013 sets out a qualitative definition for microinsurance, product approval requirements and market conduct requirements, such as on disclosure and the requirement to accept/reject claims within 7 days and settle within 10.

(8) This was shared by the regulator during the interview.

(9)–(10) GIZ and NIC published a mobile insurance landscape study highlighting current products, providers and business models, key risks to consumers, recommendations and a list of key metrics that NIC would be adopting to monitor these risks.

(11) This sets out the risk-based solvency framework for insurers. NIC had been gradually moving towards a risk-based supervision approach over the years.

(12) This mobile insurance regulatory framework stipulates requirements unique to the nature of m-insurance such as clarity on roles and requirements that apply to entities involved, co-branding, sharing and treatment of policyholder information, and contingency arrangements in the event of partnership disruption.

(13) The NIC, 4 insurers, 2 TSPs, and 1 NGO took part in the A2ii iii-lab over the course of November 2017- December 2018.

(14) Ghana is a global success story in reaching rapid scale in inclusive insurance. This scale is almost exclusively thanks to the rise of m-insurance. M-insurance in Ghana was initially built in large part on loyalty cover (where the policyholder is automatically enrolled and receives the cover for free, based on airtime usage), but has now shifted to largely voluntary/opt-in cover. Beyond m-insurance, uptake is limited and many insurance needs – including cover for the risks faced by households and MSMEs – are not met.

(15) Findings from the research will be used to identify and inform any potential enhancements to market conduct regulations.

A second aspect where there appears to be significant impact relates to **supervisory processes, notably product approval** times. One interviewee's experience was that product approval turnaround times have markedly improved in recent years. This was attributed to deliberate and sustained measures by NIC to enhance internal capacity, including actuarial skills. Asked how they managed a situation where they were faced with a new business model where they might lack expertise, the NIC described their thought process relating to questioning the impact of the business model on market players, the value of the business model, as well as how they would identify and manage arising risk. The NIC also shared that they refer to the ICPs and relevant guidance materials, and had consciously sent industry and regulatory representatives to international microinsurance conferences to build awareness and education on both sides.

> "When the regulator has capacity, it leads to ability to understand and approve products, and faster turnaround times."

> "We asked ourselves: What could go wrong? How would it affect market players? How much would it cost them? How would it affect regulatory arbitrage? Versus: What would the value be? And where there are risks, how would we mitigate?"

As a group, industry interviewees agreed on four points:

- There is currently an enabling regulatory environment for m-insurance innovation in Ghana. The interviews confirmed that there is still substantial market movement and scope for further expansion, as witnessed in recent product launches as well as pipeline plans.

- NIC provides clarity on the applicable requirements and their objectives. Interviewees are clear that NIC's goal is to build an inclusive insurance market, while ensuring sound market practices.

- NIC is proactive in how they engage with the industry, particularly in terms of licensing and product approval. Several interviewees noted the impact of the NIC's open-door policy and test-and-learn approach, as well as to consultation on new regulatory requirements. Where there are still instances where aspects of regulations pose challenges, interviewees were confident that they would be able to engage with the NIC to address these issues.

- NIC is also proactive in engaging and coordinating with other regulatory authorities (notably the Bank of Ghana and the National Communications Authority) regarding potential impact of regulation in other spheres on inclusive insurance. Though interviewees noted that a more formal coordination mechanism may help to pre-empt potential unintended regulatory impacts, the NIC mitigates these impacts in practice through its proactive engagement.

> "We are able to try new things here."
>
> "We can discuss issues openly, look each other in the eye, discover an issue, and see where this can go."
>
> "They understand what we want to do, provide information and advice."
>
> "I have no doubt that the regulator will give us a hearing on this issue, as we share a common purpose to promote market penetration."
>
> "The good thing about NIC is that they're always looking out for the customer's interest."

In terms of next steps, NIC is currently conducting a study on customer experience relating to m-insurance. The findings will inform next steps on market conduct regulations. Beyond m-insurance, NIC plans to focus more on access to insurance for smallholder farmers and informal businesses.

BOX 7

STAYING THE COURSE: BRAZIL

Measuring and understanding regulatory impact is a long-term journey, as demonstrated by both Ghana and Mongolia. Another example is the insurance regulatory authority of Brazil, Superintendência de Seguros Privados (SUSEP). SUSEP is a long-standing proponent of inclusive insurance regulation and supervision. SUSEP has been active in A2ii and IAIS inclusive insurance engagements since the formation of the A2ii.

The need to develop a microinsurance regulatory framework was identified by the early 2000s, prompted by the growing prevalence of large-scale retailer-distribution models of mass or "popular" insurance, the need to better serve Brazil's large lower-income population (exploring linkages with the social transfer scheme, Bolsa Familia), as well as the need to find a regulatory solution to the substantial informal funeral assistance industry. At the time, Brazil was already making large strides in correspondent banking and further deliberation was needed on how best to structure distribution of microinsurance, learning from the correspondent model.

SUSEP's approach has been consistently based on consultation between the regulator and the market, and this consultation has been noted as key to the outcomes of the framework. In April 2008, a Microinsurance Consultative Commission was formed, comprised of both public (SUSEP, Ministry of Finance, Central Bank and Ministry of Social Security) and private sector representatives (Insurers' Federation, Brokers Federation and the National School of Insurance). Its aim was to develop and implement a suitable regulatory framework for the development of microinsurance in Brazil. Several research studies were completed to inform different aspects of the framework. A working group on microinsurance was also formed to support the work of the Consultative Commission, with SUSEP acting as secretariat[62].

Key elements of the framework include dedicated microinsurance licences with tailored prudential requirements, specific product parameters for microinsurance, as well as allowance of microinsurance brokers and correspondents. In a recent presentation to a Microinsurance Network convening, the industry federation, Confederação Nacional das Seguradoras (CNSeg), reflected on the impact of the regulations to date. It highlighted the provision for specialised microinsurers, the allowance of mobile operations and digital filing of documents as key success factors in the inclusive insurance regulatory framework. The requirement for claims processing within 10 days was noted to be more successful for life products. However, the need for some parts of the framework are open to question, such as mandatory use of the label "microinsurance" and the requirement to designate a specific "class" of target group.

62 For more details, see: http://www.susep.gov.br/menuingles/microinsurance

3.3 Learnings and observations on regulatory impact

Regulation shapes industry behaviour and decisions, and therefore how it is designed will impact access to and uptake of insurance. This chapter begun by noting that regulation, by its mere existence, influences how insurers carry out their business, including their strategies, their business models and their products. Supervisors therefore have the option to intentionally design regulation to influence industry behaviour in a way that benefits consumers and inclusion; this is a key element of the insurance market development function. However, taking a wait-and-see approach is also an option. As the case studies illustrated, m-insurance in Ghana had entered the market in 2010 at a time when there were no specific requirements for m-insurance or inclusive insurance. The 2017 m-insurance regulations were developed based on subsequent market experience and, hence, were tailored to market realities and issues. Likewise, inclusive insurance regulations in Mongolia were only issued a few years into the inclusive insurance journey. In other instances, supervisors may opt not to create a dedicated inclusive insurance regulatory framework at all – as is still the case for the majority of jurisdictions, globally. However, that doesn't preclude impact. Impact can also arise from the approach of the supervisory authority in engaging with the market.

The extent to which the impact is "positive" or "successful" is heavily influenced by execution aspects. Judging from the two case studies, such aspects have arguably been as impactful as the contents of regulation and can be seen as key impact drivers. These drivers include:

- **Consultation, dialogue and clarity.** The interviewees all highlighted the role of proactive engagement between the regulator and the market in shaping impact. Three aspects stood out:

  - The regulator being clear on applicable regulatory requirements and their objectives. This helps the industry better navigate compliance and shape their business models accordingly.

  - The industry's confidence in being able to provide feedback to the regulator and to expect a reasonable response. This is also important to minimise backlash where requirements are controversial or where supervisors may need to take a hard line, such as in the case of prohibiting opt-out selling. It also could help avoid industry misperception of a non-level playing field.

  - The regulator being better able to understand business models. The regulator is thus better able to design fit-for-purpose regulatory frameworks that balance local context and business models with regulatory objectives and global standards.

  The iii-lab participants all acknowledged the value of the kind of objective dialogue that occurred in the workshops in promoting such mutual understanding and dialogue.

> "When we came to the iii-lab meetings, we left our competitor hats at home."

- **Fast product approval times.** The two case studies validated a view that other industry practitioners have expressed: that speedy decisions on product applications are crucial for innovation. This would likely be more critical the more competitive and fast-paced the market is, which is especially the case for tech and start-up companies. In order to do this, the regulator needs the necessary skills, as well as adequate staffing. In the Ghana case study, one industry interviewee noted how NIC's actuarial capacity-building improved product approval turnaround time. NIC also acknowledged the role of the ICPs and supervisory materials in providing guidance, particularly at the principle level.

- **Ability to adapt quickly where barriers arise or gaps become evident.** Given the trends in insurance innovation, new business models are likely to cut across different regulatory spheres or surface regulatory grey areas. Existing regulation is likely to present both barriers and gaps. Responding to these will necessitate having the legal power to issue new regulations, having a sufficient range of regulatory instruments, such as circulars or directives, to be able to respond speedily, having coordination mechanisms in place with other authorities, or simply being open to change.

- **Perception of openness to innovation.** NIC took on a deliberate role in convening the market and signalling openness to innovation. Similar to other countries, this approach seems to have an effect on attracting the interest of innovative companies. Likewise, the Mongolia case study illustrates how industry's perceptions of the regulator changed over time, via growing engagement, to create a more conducive environment for innovation. However, the case study experience also shows the importance of dialogue and actual responsiveness in shaping perceptions. In some countries where high-level statements are not matched by perceived responsiveness and efficiency in the regulatory processes, industry participants have expressed scepticism.

There are interconnected factors beyond regulatory control or capacity, given limited mandates and resources. In both case studies, the outcomes seem to result from a chain of events comprising various regulatory actions and market developments, and shaped by the political and economic realities of the present and past. Some of these could be within the regulator's control, such as other aspects of insurance regulations. However, many others are beyond the sphere of influence or legal authority of the regulator, at least in the short term: scope of jurisdiction, culture, economic growth, the state of digital infrastructure, and to some extent, the actions of other regulatory authorities and policymakers. For example, interviewees linked the Mongolian consumer mindset of relying on the Government for resilience to Mongolia's economic history. The inherent innovativeness and social orientation of market players are also for the most part beyond regulatory control. The same goes for market trends in other sectors: in Ghana, the growth of m-insurance has been driven in substantial measure by the parallel growth of the mobile money industry as well as competition among MNOs to gain customer loyalty through add-on services beyond voice and data.

Regulatory impact is therefore not easily definable, immediate or linear. It is difficult to identify the best quantitative or qualitative indicators of impact, and to make a causal link between regulation and the indicators. For instance, if insurance penetration, coverage ratios and claims ratios increased or decreased after regulations were issued, what was the respective contribution of favourable regulation, and supervisory actions, and supervisory approach? If no significant change is observed during an impact assessment, is it because regulation "didn't work", or are other factors or timing in the way? What are useful qualitative indicators of impact? If regulatory changes had not taken place, what would the indicators have shown? As such, it is also difficult to assess if any action needs to be taken, such as regulatory revisions or additional measures.

These complexities do not render impossible a high-level understanding of regulatory impact, and reflecting on them can inform the way supervisors can think through regulatory and supervisory change and monitor their apparent effects. The case studies illustrate the value of unpacking the inclusive insurance journey and building an understanding of how regulatory interventions interplay with market forces and the broader economic and political context. Evidence-building through appropriate data collection is essential to enable this understanding. NIC has, for instance, instituted product-focused reporting requirements to enable it to monitor inclusive insurance market trends including products sold, the number of policies per product class, churn, claims and expenses. In both case study countries, diagnostics and assessments supported by A2ii, GIZ, Mutual Exchange Forum on Inclusive Insurance Network (MEFIN) and ADB over the years document in-depth and revealing quantitative and qualitative information that not only helped to inform regulatory decisions at the time, but that collectively help to map out Ghana and Mongolia's inclusive insurance developments over time. Taking stock of how the evidence stacks up to tell the impact story over time will inform future regulatory impact assessments. Drawing on this learning, the A2ii are currently working on a regulatory impact toolkit to further explore and give guidance on the topic of fit-for-purpose regulatory impact assessment.

4. LOOKING AHEAD

The environment in which insurance operates has evolved in the past decade, and will continue to do so. The way supervisors do work will inevitably keep adapting as well. However, some things remain: In inclusive insurance, some of the age-old questions that supervisors grappled with at the beginning of the decade still stand today, even if the answers to these questions might have changed. This section sets out some ideas on how the field of insurance regulation might evolve in the next few years. It also highlights where the field of inclusive insurance might be expected to go next, some old and some new. Lastly, it suggests a few ways in which the A2ii can continue to support this process.

4.1 How will insurance regulatory priorities evolve in the next few years?

- **Insurance market development will become an increasingly core priority for supervisors.** In its 2020-2024 strategic plan, the IAIS explicitly acknowledged the role of supervisors in insurance market development and, more broadly, sustainable economic development. In some EMDE insurances markets, studies suggest a need to strengthen market fundamentals in order to be able to meet other goals such as inclusive insurance. Additionally, uniting all jurisdictions will be the common goal of closing the protection gaps in their respective market contexts, be it in terms of excluded groups or the absence of coverage for certain risks. Supervisors will have to do this against an evolving landscape, where existing regulatory concepts and practices will be shaped by digitalisation, climate change and demographic shifts among other factors.

- **Insurance supervisors will continue moving towards risk-based regimes while also strengthening focus on conduct of business and consumer outcomes.** Supervisors who currently do not practice risk-based regimes will continue transitioning towards risk-based capital and supervision. Across all jurisdictions, conduct of business and consumer protection will continue to be a priority. An area where inclusive and "traditional" insurance will converge is the topic of consumer outcomes. In both spheres, supervisors have started and will continue looking into devising more concrete ways of assessing whether insurance services are being provided at good value and with positive outcomes for consumers[63].

- **All supervisors will likely devote more effort towards building data and key performance indicator (KPI)-usage capabilities.** However, supervisors will be starting from different baselines of capacity. For some EMDEs, supervisors find existing essential data infrastructure inadequate for effective supervision and policymaking. Issues highlighted by supervisors include the quality, sufficiency and reliability of data submitted from the industry, as well as the inadequacy of internal expertise to organise and ana-

63 FCA UK and ASIC Australia conducted studies on the general and life markets respectively, focusing on claims and COB and with a view towards using published high-quality data on claims to help consumers make more informed choices based. ASIC has since launched a life insurance claims comparison tool:
https://www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/life-insurance-claims-comparison-tool

lyse the data received. While supervisors acknowledge the need to build data capabilities for the long term, supervisors' immediate priority will be to find pragmatic ways to measure and assess regulatory outcomes otwithstanding data constraints. Others will be working on taking data collection to the next level, such as by developing linked national databases[64], adopting SupTech, or collecting disaggregated data such as by income, sex, age, geographic area, migratory status and others.

- **Supervisors will likely continue adapting institutional and coordination structures to meet the evolving demands of their role.** As supervisors' mandates and objectives change, supervisors would likely continue undertaking measures such as internal restructuring, legislative changes to coordination mechanisms with policymakers and other regulatory authorities. Supervisors will likely work towards creating more consistency and harmonisation in regulations across the different financial, and even non-financial spheres such as health, data protection and telecommunications. Supervisors will also strive towards better coordination mechanisms and closer engagement with policymakers in areas such as agriculture and disaster risk management[65].

- **Looking ahead, the learning and adapting will not stop for inclusive insurance.** New ideas, innovations and capabilities to close protection gaps will continue to arise, while at the same time some old questions remain. These questions include:

  - How can supervisors best measure access to and uptake of insurance? The most widely used and internationally comparable KPI is still the insurance penetration (premiums as a percentage of GDP), despite its well-known flaws.

  - How can supervisors define and measure positive consumer outcomes with the vulnerable in mind? Some work has begun on claims and product value but the discussion is only beginning.

  - Who are the excluded and underserved and what do they need? Beyond using the low income as a defining parameter, how can supervisors better understand the needs of other excluded and underserved groups such as smallholder farmers, women, informal business owners?

  - What approach can supervisors take to enable beneficial innovation, while protecting consumers, particularly financially vulnerable ones, from potential downsides? Or to go a step further, how can supervisors design regulation that incentivises positive company conduct, competition, and innovation?

  - In wider policy discussions, what is the role of the supervisor? Conversely, in insurance development, what is the role of policymakers? Discussions are still ongoing

64 SECP Pakistan is working on an initiative to rationalise the National Database Registration Authority to enable AML/CFT verification for small ticket-size insurance policies, which will help to lower cost of complying with AML/CFT requirements.

65 The Argentinian central bank initiated discussions among different policy and regulatory stakeholders on areas of mutual interest, such as the development a national financial inclusion strategy and addressing the gender gap. The Hong Kong Insurance Authority actively sought out the Food and Health Bureau and the HKMA when licensing its digital insurer as well as in developing its overarching digital strategy.

on the role of the supervisor and regulations in a coordinated approach to disaster risk management.

- How can the supervisor and industry work more constructively together? The industry often views supervisors as being insufficiently open to innovation, but to what extent can these challenges be overcome by better engagement and consultation?

4.2 What next for the A2ii?

Looking ahead, there will likely be continued strong interest among supervisors to build capacity and advance regulatory thinking and practices. All jurisdictions will be seeking to better understand emerging topics, such as new technologies, data analytics and climate risks. For EMDEs, there will also be the additional task of building up core regulatory competencies such as actuarial skills and risk-based supervision. The unifying objectives for all supervisors will be largely the same: to preserve financial stability, to protect policyholders and, in some jurisdictions more than others, to close protection gaps. Towards this last objective, the A2ii will continue to support supervisors. The A2ii's mission will remain the same: to strengthen the capacity and understanding of supervisors to facilitate the promotion of inclusive and responsible insurance. Among others, the following will be key priorities of the A2ii for the next few years.

- Aligning more closely with supervisory needs. In line with the integrated market development approach, the A2ii will be open to meeting more core capacity building needs of EMDEs, recognising that access to and uptake of insurance are hugely dependent on market fundamentals. This will include according more importance to structured follow-up and implementation support for A2ii trainings.

- Developing a better understanding of regulatory impact, both in hindsight as well as *ex ante* to guide forward-looking regulatory development to support supervisors in achieving insurance market development and inclusion objectives. This work includes, among others, a toolkit on regulatory impact assessment which will be streamlined with the A2ii's existing diagnostic toolkits.

- Facilitating more effective peer-to-peer exchange among supervisors to share experience and expertise. As EMDE insurance markets develop and with the emergence of new risks that affect all jurisdictions, there will likely be increasing convergence in priorities and challenges among inclusive and non-inclusive spheres, EMDEs and non-EMDEs.

- Facilitating better data collection and analysis. The A2ii and Cenfri will develop a data-reporting framework for effective insurance market development and supervision, starting with a stocktake of the state of insurance data reporting in Sub-Saharan Africa to understand what the needs are.

CONCLUSION

The inclusive insurance learning journey for supervisor is a continuous one. Lessons are constantly being unlearned and relearned. Some questions that were asked a decade ago have been answered, but others remain. What is for certain, however, is that supervisors have an important role to play in promoting inclusive and responsible insurance. Regulations and supervisory measures have an impact on how insurers and other market players provide access to insurance. It is up to supervisors to work within their mandates and constraints to wield this potential to the benefit of the financially vulnerable. How regulatory and supervisory initiatives should be designed is still a work-in-progress. It is a comfort that data and technological capabilities as well as regulatory capacity can be expected to continue to improve. Supervisors will only become more and more well-placed to harness the potential of insurance towards meeting its foremost role: helping vulnerable people live more resilient lives.

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List of Abbreviations

A2ii	Access to Insurance Initiative
ADB	Asian Development Bank
AI	Artificial Intelligence
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BIS	Bank for International Settlements
BMZ	German Federal Ministry for Economic Cooperation and Development
CGAP	Consultative Group to Assist the Poor
CNSeg	Confederação Nacional das Seguradoras
COB	Conduct of business
EMDEs	Emerging markets and developing economies
FATF	Financial Action Task Force
FCA	Financial Conduct Authority
FIAP	Financial Inclusion Action Plan
FISc	Financial Inclusion Subcommittee
FIWG	Financial Inclusion Working Group
FRC	Financial Regulatory Commission
FSI	Financial Stability Institute
GDP	Gross domestic product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IADB	Inter-American Development Bank
IAIS	International Association of Insurance Supervisors
ICPs	Insurance Core Principles
iii-lab	Inclusive Insurance Innovation Lab
ILO	International Labour Organization
IRDAI	Insurance Regulatory and Development Authority of India
IRA	Insurance Regulatory Authority
JWG	Joint Working Group
KPI	Key performance indicator
MCCOs	Mutuals, Cooperatives and other Community-based Organisations
MDG	Millennium Development Goal
MFIs	Microfinance institutions
MFW4A	Making Finance Work for Africa
m-insurance	Mobile insurance
MNO	Mobile network operator
MSME	Micro, Small & Medium Enterprises
NFIS	National financial inclusion strategies
NIC	National Insurance Commission
P2P	Peer-to-peer
PSI	Principles of sustainable insurance
SECP	Securities and Exchange Commission
SUSEP	Superintendência de Seguros Privados
TSPs	Technical service providers
UK	United Kingdom
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNEP FI	United Nations Environment Programme – Finance Initiative

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Promoting access to responsible, inclusive insurance for all.