Access to Insurance Initiative

A global programme for sound regulatory and supervisory frameworks

IAIS-A2ii Consultation Call: 31 March 2016

"Proportionate Approaches to the Supervision of Intermediaries"

Michael Hafeman

Agenda

1. Risks and proportionate mitigation (Michael Hafeman)
2. Country examples (Brazil, Philippines)

IAIS Standards and Guidance

- ICP 18 Intermediaries – The supervisor sets and enforces requirements for the conduct of insurance intermediaries, to ensure that they conduct business in a professional and transparent manner.
- ICP 19 Conduct of Business – The supervisor sets requirements for the conduct of the business of insurance to ensure customers are treated fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.
- IAIS Issues Paper on Conduct Of Business In Inclusive Insurance, November 2015

a1. Develop knowledge of the business – who are the customers and how are products distributed to them?

- **Products**
- **Target customers**
- **Business models**
  - Individual sales, proxy sales, compulsory sales
  - Group decisions, local self-help, auto enrolment
  - Passive sales, service-based sales

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a2. Develop knowledge of the business – who are the intermediaries and what roles do they play?

- **Parties involved in the value chain: reinsurer, insurer, *administrator, broker/agent, aggregator*, clients**
  - More diverse parties in inclusive insurance
- **Roles of each of the parties: reinsurance, *underwriting, administration, product development, marketing, sales, premium collection*, insurance decision**
  - Intermediaries might play non-traditional roles

b1. Identify potential risks – which risks relate to the activities of intermediaries?

- **Consider the entire product lifecycle**
  - Product development, distribution
  - Disclosure of information, customer acceptance
  - Premium collection, claims settlement, complaints handling
- **Intermediaries might be involved in multiple aspects of the product lifecycle**

b2. Identify potential risks – what might increase the risks in inclusive insurance?

- **Distribution-related risk factors**
  - Multiplicity of parties
  - Level of skills and competence
  - Interests (v. consumers')
  - Relative bargaining power of parties
  - Potential impact on costs and reputation

c1. Consider potential risk mitigants – what factors might help to reduce the risks?

- **Country context**
    - Regulatory framework, consumer protection mechanisms, associations, courts
- **Business controls**
    - Governance, internal controls, accountabilities of entities

c2. Consider potential risk mitigants – what more might supervisors do to reduce the risks to acceptable levels?

- **Regulation**
  - Parties subject to licensing, licensing requirements, permitted roles
  - Responsibilities and accountabilities of intermediaries and others
    - For example, regulation on the roles and responsibilities of aggregators in contracting
  - Product and contract simplicity

c3. Consider potential risk mitigants – what more might supervisors do to reduce the risks to acceptable levels?

- **Supervision**
  - Monitoring and inspection
    - For example, mystery shopping
  - Delegation of oversight
    - For example, to insurers
  - Cooperation
    - For example, with microfinance or telecom regulators
  - Intervention

Proportionate approaches to the supervision of intermediaries – recap

- Understand the business – who are the intermediaries and what roles do they play?
- Understand the risks – how can the activities of intermediaries contribute to the risks?
- Consider potential mitigants – what features of the system might already help to mitigate the risks?
- Develop regulatory and supervisory frameworks – what are the least-intrusive additional steps that can be taken to reduce the risks to acceptable levels?

Proportionate approaches to the supervision of intermediaries – recap

Step 1. Identification of intermediaries and roles	Step 2. Identification of Risks	Step 3. Risk mitigants selection - intervention

Step 1. Identification of intermediaries and roles

- Underwriting
- Product development
- Marketing
- Selling
- Insurance decision
- Administration
- Premium collection
- Claims handling
- Complaints handling

Step 2. Identification of Risks

- Prudential Risk
- Aggregator Risk
- Sales Risk
- Policy Awareness Risk
- Payments Risk
- Post-sales Risk

Step 3. Risk mitigants selection - intervention

- Country context
- Business Controls
- Regulation
- Supervision

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Luciana Mateus
SUSEP BRASIL

Background

The Superintendence of Private Insurance (SUSEP) is a federal agency directly linked to Ministry of Finance. It is the insurance commissioner, responsible for the supervision and control of the insurance, reinsurance, open private pension funds and its intermediaries in Brazil.

Aligned with governmental directives, a Consultative Commission on Microinsurance was constituted comprised of representatives from both public and private sector and conducted by SUSEP.

The mission of the Consultative Commission, supported by a comprehensive Research Program, was to foster suitable conditions for the development of microinsurance in Brazil.

Comissions Key Findings - Intermediaries

1. **At least 7 different distribution channels were assessed:** brokers, churches, coops, "estipulante" (group polices), Banks, Department Stores, Public Utility Providers, among others
2. **Legislation was flexible to regulate new distribution channels within the scope of the Supervisory Authority -key-point for microinsurance commercialization process**
3. **Current legislation allows the creation of a microinsurance broker – local person (cultural aspect)**
4. **Bank Correspondents* could provide an important distribution channel for the sale of microinsurance products – coordinated work could be jointly developed by SUSEP and Central Bank.**

* local merchants, post offices and lottery outlets that distributes a range of financial services on behalf of banks. More than 130,000 banking correspondentes ensure the availability of banking services in each of the more than 5,000 municipalities in the country.

Actions taken - Intermediaries

New intermediaries were created :

1. Bank Correspondent* - allows bank correspondents to conduct microinsurance sales, receive payments and pay claims (SUSEP Circular 441/2012)
2. Microinsurance Correspondent* – play a role similar to bank correspondent, but the contract is direct with the Insurer. (SUSEP Circular 442/2012)
3. Microinsurance Broker - qualification by means of a differentiated technical training, including minimum necessary requirements – microinsurance products only (SUSEP Circular 443/2012)
4. Insurance Representative (legal person)* – similar to Microinsurance Correspondent - authorized to sell few insurance lines including microinsurance. (CNSP Resolution 297/2013 – SUSEP Circular 480/2013 (Retailers) – consumer protection issues

* there is no exclusive contract with an insurer

Conclusions

1. MI Correspondents and Insurance Representatives * – more transparency and has implemented Consumer Protection - Subject to the penalties laid down in the insurance legislation (more than 5000 IR including MI correpondents - Insurance Companies need to send electronic data to SUSEP)

2. Microinsurance Broker ** – SUSEP needs to foster this activity. Very few MB registered in SUSEP (less than 15 brokers)

* commercial agreement with the insurer

** licensed by SUSEP

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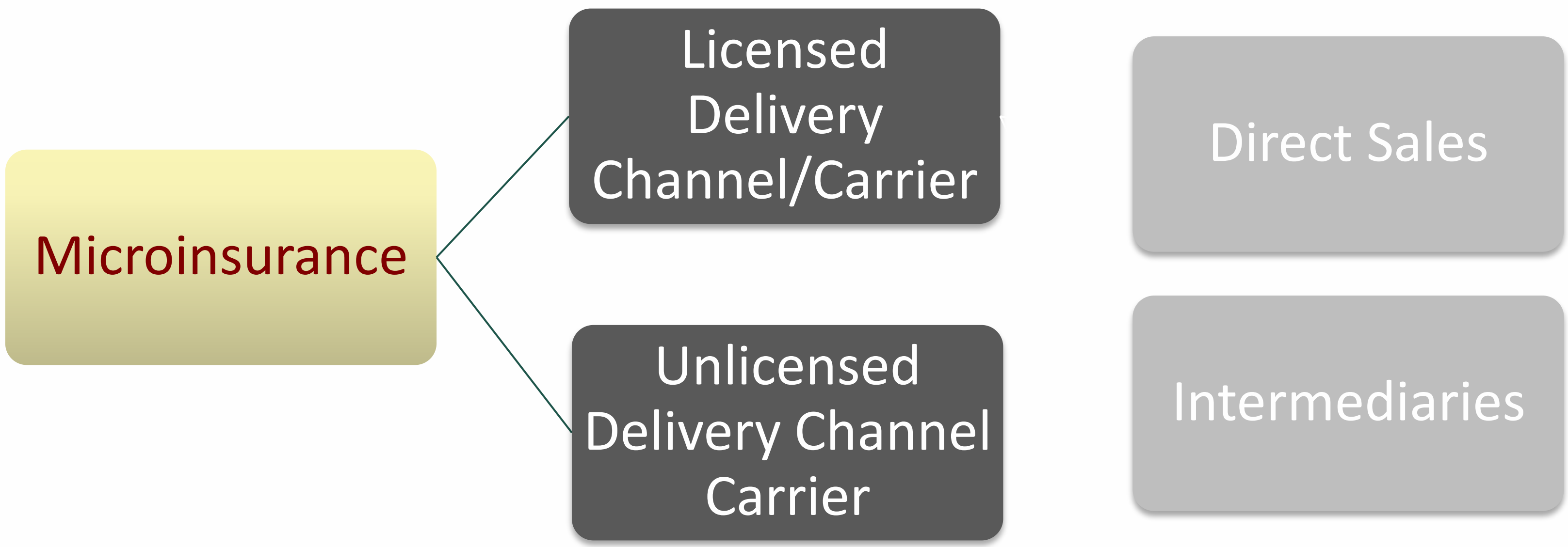
Rosalina Bactol
Insurance Commission Philippines

Delivery of Microinsurance



Unlicensed Delivery Channel/Carrier

- Community-based schemes (pooling of funds)
- Microfinance institutions/Cooperatives providing coverage to members through self-insurance
- NGOs

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Licensed/Allowed Delivery Channel/Carrier

- Direct Sales by Licensed Insurance Companies & MBAs
- Intermediaries (Agents and Brokers)
- Alternative Distribution Channels

Intermediaries/Distribution Channels

Intermediaries

Process/Activities/Services	Regular Agent	General Agent	Broker
Representation	Insurance entity	Insurance entities	Clients
Number of insurance partners	Life: one company Non-life: up to seven companies	No limits	No limits
May design products	No	In collaboration with the insurer	Yes
Business plan development	No	Yes	Yes
Evaluation of risk	No	No	Yes
Administration	Document processing only	Yes	Yes
Selling	Yes	Yes	Yes
Claims	Documentation only	• Documentation and evaluation • Payments if authorized by the insurance company	• Documentation and evaluation • Payments if authorized by the insurance company
Use of distribution channels	No	Yes	Yes

Intermediaries & Distribution Channels