



International Association of Insurance Supervisors

**Application Paper on Regulation and Supervision
supporting Inclusive Insurance Markets**

October 2012



This document was prepared in consultation with the IAIS-MicroInsurance Network Joint Working Group and the Access to Insurance Initiative.

This publication is available on the IAIS website (www.iaisweb.org). © International Association of Insurance Supervisors, 2012. All rights reserved. Brief excerpts may be reproduced or translated provided the source is stated.

Application paper on Regulation and Supervision supporting Inclusive Insurance Markets

Contents

1	Introduction and background:	4
	Summary of key points	5
	About inclusive financial markets and insurance	7
2	Objective of providing inclusive insurance products and services within the supervised market	12
	All entities that act as insurers should be subject to licensing	12
	There is a minimum size required to retain insurance risk	13
	Mixed entities	13
	Licensing pilots	14
	Formalising the informal – managing transitional arrangements	15
	Cooperation in support of transitional arrangements	16
3	Innovation	16
	Particular issues that arise when expanding the eligible entities to include mutuals, cooperatives and other community-based organisations	19
4	Proportionality and its application to inclusive insurance markets	21
	Proportionate approaches have a lower bound	24
	Absolute minimum requirements	25
5	Roles and responsibilities	29
	Financial sector policy	29
	The insurance supervisor in a leading role	29
	More diverse market participants impact the responsibilities of other supervisors	30
6	A definition of microinsurance in regulation	31
	Annex 1: G20 Principles for Financial Inclusion	33

1 Introduction and background:

- 1.1 The International Association of Insurance Supervisors (IAIS), through the *Insurance Core Principles* (ICPs)¹, provides a globally accepted framework for the supervision of the insurance² sector. Its mission is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders³; and to contribute to global financial stability.
- 1.2 The ICPs prescribe the essential elements that must be present in the supervisory regime. Standards are linked to specific ICPs and set out key high level requirements that are fundamental to their implementation. Guidance material typically supports the ICPs and/or standards and provides detail regarding how they should be observed or implemented.
- 1.3 The purpose of this paper is to provide application guidance supporting inclusive insurance markets. It provides examples of how relevant principles and standards can be practically applied. Where enhancing inclusive insurance markets is a policy objective, this document elaborates guidance for supervisors. It is directed at the objectives of implementing the ICPs in a manner that protects policyholders, contributes to local and global financial stability, and enhances inclusive insurance markets.
- 1.4 The IAIS considers that the ICPs apply to insurance supervision⁴ in all jurisdictions regardless of the level of development or sophistication of the insurance markets and the type of insurance products or services being supervised. At the same time, it recognises that 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”). Accordingly, the relevant ICPs, standards, and guidance identify areas in their text that provide supervisors with the flexibility to tailor supervisory requirements and actions so that they are commensurate with the risks posed by individual insurers to the insurance sector or to the financial system as a whole. While implementing and assessing the standards in a jurisdiction, it is also important to consider the domestic context, industry, structure and developmental stage of the financial system and overall macroeconomic conditions.

¹ The complete set of ICPs including introduction, Principles, Standards and Guidance can be found on the public section of the IAIS website (<http://www.iaisweb.org/ICP-on-line-tool-689>)

² Insurance refers to the business of insurers and reinsurers, including captives.

³ The IAIS Glossary defines a “customer” as a “policyholder or prospective policyholder with whom an insurer or insurance intermediary interacts, and includes, where relevant, other beneficiaries and claimants with a legitimate interest in the policy”. The glossary does not define “policyholder” although earlier papers had noted that “Policyholders includes beneficiaries”.

⁴ Supervision refers to both regulation and supervision. Supervisors include regulators. (Insurance supervision within an individual jurisdiction may be the responsibility of more than one authority. For example, the body that sets out the legal framework for insurance supervision may be different from the body that implements it. The expectation is that the ICPs are applied within the jurisdiction by all authorities in accordance with their respective responsibility in relation to the supervision of the insurance sector (referred to as “the supervisor”) rather than necessarily by only one authority. It is, however, essential that in situations where multiple authorities exist, coordination arrangements be established between them to ensure that the implementation of the ICPs within the jurisdiction occurs in an accountable framework.

-
- 1.5 Increasingly, insurance supervisors in emerging markets and developing economies are aware of the need to seek a healthy balance between regulation, enhancing access to insurance services and protecting policyholders. Governments recognise that enhanced access to insurance services helps reduce poverty and improve social and economic development. Regulated insurers and intermediaries⁵ are seeing the business potential of the low-income population and are offering innovative products and distribution models. At the same time, informal entities grow in size and numbers.
- 1.6 To support supervisors in their efforts to deal with these challenges, the IAIS has been working on its “access agenda” since 2006 by way of the IAIS-Microinsurance Network Joint Working Group and the Access to Insurance Initiative. Prior to this paper, two issues papers have been adopted:
- 1.6.1 Issues in Regulation and Supervision of Microinsurance (June 2007): This paper discussed regulation and supervision as well as providing some background to microinsurance concepts. The paper also contained a preliminary analysis of the ICPs that were in place at the time and concluded that the ICPs cover the essential aspects however, when applying these principles in practice then the outcomes could be positive or negative for inclusive markets depending on the approach taken whilst still observing the ICPs.
- 1.6.2 Issues Paper on the Regulation and Supervision of Mutuals, Cooperatives and other Community-based Organisations in increasing access to Insurance Markets (October 2010): Recommended as a follow-up from the work of the first paper, this paper discussed the key elements of such organisations that are relevant to considering the approach to their regulation and supervision.
- 1.7 This application paper has been prepared based on the 2011 ICPs and highlights those matters specifically relevant to supporting inclusive insurance markets.

Summary of key points

- 1.8 Recognising the intent that the ICPs are universally applicable, the paper provides more specific information on how the ICPs can be implemented consistent with efforts to enhance the level of inclusiveness of insurance markets. It shows that some approaches to implementation may be more conducive to enhancing inclusive insurance markets, particularly for those that are underserved⁶. The paper provides background material and discusses solutions relevant for supervisors. It recognises that:
- 1.8.1 the ICPs apply universally, including when seeking to enhance access to inclusive insurance markets, however, the application of the ICPs in practice is important to achieving the intended outcome;

⁵ "Intermediaries" refers to any natural person or legal entity that engages in insurance intermediation. The ICPs do not normally apply to the supervision of intermediaries but where they do, this is specifically indicated in the ICPs, Standards and Guidance (refer paragraph 9 of the Introduction to the ICPs).

⁶ In this paper, the term “underserved” refers to those that have less than sufficient access to insurance services. They may be partly or wholly “excluded”.

-
- 1.8.2 inclusive insurance products and services should be provided within the supervised market. In particular, all entities that act as insurers should be subject to licensing;
 - 1.8.3 although solutions are available that can take account of the nature, scale and complexity of the entity and its risk profile, there is a minimum point below which it will not be possible to retain insurance risk. Below this, entities should be limited to providing other services;
 - 1.8.4 insurance risk should not be carried on the balance sheet of entities that also do other financial or non-financial business. If small entities are operating mixed businesses, they should transition to separation of the insurance business into a separate legal entity;
 - 1.8.5 pilot schemes should be licensed, at least at the level of registration, and be subject to conditions that protect the interests of policyholders during and, if relevant, beyond the pilot;
 - 1.8.6 in the event that informal services exist, then formalisation is needed. Formalisation should be clear, transparent, and based on transition plans that provide incentives to formalise and limit excessive risk taking before full transition;
 - 1.8.7 if the regulation recognises a specific class of product with special treatment, arbitrage is reduced if all existing insurers can also provide the product to the market. Similarly, if a specific category of insurer is created it should be restricted to providing limited products under defined circumstances;
 - 1.8.8 innovations are usually needed to overcome barriers to access to insurance markets. Such innovations may include new or different providers of insurance protection, distribution and servicing approaches, or technology. Primary legislation should provide supervisors with flexibility to respond to new innovations and conditional licenses or similar approaches can be used to implement the approaches in practical steps. However, supervisors need to be prepared to license and supervise a wider number and more varied range of entities as insurers or distributors or both, and legal requirements need to include entry, oversight, and exit of such entities;
 - 1.8.9 supervisors and other agencies may need to cooperate as a result of the inclusion of new entities in the supervisory regime. This may require other agencies to amend their approach to confidentiality and information protections;
 - 1.8.10 there should be no need for “exemptions” from some or all supervisory requirements. Instead, supervisory differences should be based on the nature, scale and complexity of the risk of the insurer and to the achievement of supervisory objectives. In some cases, the risk may be reduced and in others, particularly consumer protection, the risk to achieving supervisory objectives may suggest increased intensity of supervision;
 - 1.8.11 when a supervisory approach takes into account a more limited risk assessed on nature, scale and complexity of the entity, as well as the risk to supervisory objectives, this should be reflected in both the approach to and constraint on the entity to maintain the more limited profile. Ideally, as an entity grows, the constraint should act as an incentive to develop more sophisticated approaches and seek the removal of the constraint;

-
- 1.8.12 as there is a minimum point beyond which insurance risk should not be retained, the paper sets out some of the “absolute minimum requirements” that would apply at that point. As insurers increase their risk profile in terms of nature, scale and complexity, from this minimum point, then the requirements should increase;
- 1.8.13 the insurance supervisor should be given a lead role when seeking to advance inclusive insurance markets;
- 1.8.14 if a definition is needed in local laws or regulations, qualitative definitions are preferred until a quantitative definition is absolutely needed for other reasons, and then it should have particular characteristics.

About inclusive financial markets and insurance

- 1.9 “Financial inclusion” refers to a state in which all working age adults have effective access to credit, savings, payments, and insurance from formal providers. “Effective access” involves convenient and responsible service delivery, at a cost affordable to the customer and sustainable for the provider, with the result that financially excluded customers use formal financial services rather than existing informal options⁷.
- 1.10 Inclusive insurance markets, as a contributing element of overall financial inclusion, are characterised by:
- affordable;
 - sustainable;
 - convenient; and
 - responsible
 - delivery by licensed and supervised insurers and intermediaries of all parts of the insurance product and service.
- 1.11 Financial inclusion contributes to financial stability. It is an important element in delivering fair, safe and stable financial markets in a jurisdiction. Less than fully effective inclusion can, and has, led to financial sector instability. The link between financial inclusion and financial stability is one of the reasons for the interest of G20 leaders in this matter⁸.
- 1.12 The Principles for Innovative Financial Inclusion (Principles), endorsed by the G20 leaders in 2010, help create an enabling policy and regulatory environment for innovative financial inclusion. Innovative financial inclusion means improving access to financial services for low-income populations through the safe and sound spread of new approaches. The Principles reflect conditions conducive to spurring innovation for financial inclusion while protecting financial stability and customers. They can be adapted to different country contexts. Annex 1 provides ideas on how the G20 Principles relate to the issue of advancing insurance coverage to low-income populations.

⁷ Source: Global Partnership for Financial Inclusion (2011) Global Standard-Setting Bodies and Financial Inclusion for the Poor: Toward Proportionate Standards and Guidance

⁸ G20 Financial Inclusion Action Plan: “Financial inclusion is not only an end in itself. It is also required for, and complementary to, financial stability and financial integrity” (p. 2, paragraph 4).

Barriers to inclusive insurance markets

- 1.13 Less than fully inclusive insurance markets can reflect one or more “barriers” to access. Barriers can exist in many forms and are not limited to the issue of the cost of products and services. They may include affordability, geography, culture, administration, logistics, language, and education⁹. Barriers to access may relate to the purchase of the product, ongoing premium payments and collection services, claims, or customer service complaint handling. Barriers can affect the customers (demand side), providers (supply side), or both. Demand side barriers can arise as customers usually have low-incomes and/or low net worth, although the segment is not necessarily uniformly poor. They may be often self-employed and excluded from the coverage of state social protection schemes for the employed sector. Patterns of income, savings and expenditure are different from higher income segments. Incomes are often seasonal and subject to fluctuation. Disposable incomes are small. Most of their income is spent on basic requirements such as food and shelter. Hence, affordability levels are low. Their understanding of financial commitments or risk mitigation at different stages of life may be weak.
- 1.14 For many years, supply of insurance for low-income populations has been depressed. Conventional insurers have focused on higher income and corporate segments as their core business¹⁰. Accordingly, their business models, including products, cost structures, geographical presence, distribution networks and servicing infrastructure, have been built with this focus. Insurers have tended not to consider low-income segments attractive due to various reasons: individual premium sizes were perceived as too low given per-policy fixed costs; premium calculation was seen as more complicated due to limited available data; and the nature of the demand and risks of this segment was unknown. The distribution network which was more comfortable and familiar with the middle or higher income segments also did not find doing business with the low-income persons lucrative as traditional remuneration structures provide incentives to focus on larger premium products. Proportionate regulation could reduce barriers.
- 1.15 Therefore to make existing markets more inclusive, it is necessary to overcome barriers. The solution does not lie in simply offering policies with smaller premiums unless cost is the only barrier. Inclusive approaches usually include innovations in product design, coverage and service delivery as well as product sizes. Consequently, what is often considered to be “microinsurance” is addressed in this application paper but the concepts go beyond “microinsurance” as a particular product to address inclusive insurance markets.

⁹ Examples of geographic barriers might include the distance between points of service and the customer or requirements to travel that are impractical to either access the service directly or to secure other elements that are required to access the service. A common example of the later might be the need to travel to government offices to secure copies of legal identification documents or certificates of death to support a claim application. Cultural barriers might include, for example, either a view held on the part of insurer management that formal insurance is not appropriate for a particular group or when customers do not have a strong affinity with or trust of large and formal institutions considering that they are not oriented to serve their needs effectively. Educational barriers often can include challenges of financial literacy or general literacy when processes are oriented to providing information in a format that assumes levels of one or the other.

¹⁰ In this Application paper the phrase conventional insurers is used to refer to insurers that serve the existing market.

Innovative approaches

- 1.16 To overcome barriers it is necessary to do things differently. Innovations can include changes to product features, services delivered, channels and vehicles for delivering the products and services, and the product provider (the insurer). This section discusses some common innovations and illustrates some of the challenges for supervisors when including these products, services and entities in the regulated environment.
- 1.17 Generally, consumer protection needs are higher when access to insurance markets is first extended. Protection mechanisms need to be tailored to a customer segment with low financial literacy, and little or no experience with insurance. While keeping transactions costs low, it is important to address effective disclosure, simplicity of products, fair and accessible resolution of disputes and recourse options and efficient claims mechanisms.
- 1.18 Traditional regulatory frameworks, including licensing procedures for products and agents, prudential norms and supervisory mechanisms, tend to have been designed for products and services of higher-income customers. Hoping to spur the sound growth of insurance products and services targeting the low-income population, some jurisdictions are now developing policy frameworks targeting insurance for this population segment.
- 1.19 Increasingly, supervisors are facilitating an “inclusive” insurance market that works effectively for upper as well as low-income populations. These initiatives are aimed at developing legislation and supervisory practices that encourage existing insurers to serve low-income populations, or that motivate informal providers and intermediaries to integrate with the formal insurance sector. To do this, coordination and cross-sector cooperation is often needed between public authorities including central banks, revenue authorities, telecommunications regulators, health authorities, and departments of agriculture and social protection.
- 1.20 Industry participants, their networks and other insurance support structures have been faced with a steep learning curve in finding new ways to make insurance markets more inclusive. The same is true for supervisors striving to drive this process.

Products and services

- 1.21 Microinsurance products provide risk protection for the low-income population against specific life or non-life perils, by offering a variety of tailor-made products spanning property, life, health, credit, agriculture/livestock and catastrophe cover. The products are designed and priced to be proportionate to the likelihood and cost of the risks involved.
- 1.22 In the absence of insurance, risk protection often involves calling upon family and friends, taking loans, depleting assets, or reducing expenses for education or even consumption. Many in the underserved market consider insurance a ‘sunk expense’ and have a negative perception of insurance. These factors have limited the usage of insurance among low-income populations. As a consequence, their lives and assets are exposed to multiple risks and their ability to generate income and accumulate wealth is undermined.
- 1.23 Recently, various insurers and intermediaries (among them commercial actors) have started to design innovative products and delivery models that fit the requirements of low-income populations rather than simply present miniaturised versions of conventional products. Embedded products – insurance covers tagged along with other products – and group cover proved to be effective. To achieve scale, curtail costs and enhance access, more insurers are expected to innovate with new

products, and distribution and servicing models. At the same time, it is also crucial to make sure customers understand the choices they make, their duties and rights, and are empowered to exercise their rights.¹¹

- 1.24 Relative to more conventional insurance, the basic features of products oriented toward enhanced inclusion may include:
- relatively low premiums;
 - defined and limited cover;
 - short policy terms to limit risk;
 - few, if any, exclusions;
 - preference for group underwriting;
 - simple and rapid claims processing while still controlling for fraud.
- 1.25 Recent experiences have proven that customers can afford and will use insurance if “adequately offered”. Important elements of adequate offering are making terms and contracts simple, and endeavouring to ensure the value of insurance is understood.
- 1.26 Because there are great variations in the underserved segments, protection needs and preferences also vary based on such factors as occupation, community, culture and location. For instance, while life insurance should be a priority for each breadwinner, cultural beliefs may impede this. Protection for dwellings, tools and livestock should be a priority for the flood-exposed sections, while other insurances can protect against crop-loss due to drought in rural areas. Daily wage earners may prefer a daily or weekly premium payment whereas smallholder farmers may prefer the payments to fall due in the harvest season.
- 1.27 Innovations in services might include different ways to explain products, enrol customers, issue contracts, underwrite, collect premiums, assess claims or handle other customer service matters. Innovations may be new approaches to doing these tasks or could include new technologies.

Channels for delivery

- 1.28 Customers often live geographically far from where insurance services are available and may migrate seasonally in search of work. This makes sales and servicing challenging. Access to inclusive insurance markets could be enhanced by a diverse range of intermediaries including traditional brokers/agents, bancassurance, microfinance institutions (MFIs), non-government institutions, direct marketing (e.g. call centres), direct mail (e.g. mail lists purchased from other mass-service providers), alternative direct sales forces (e.g. distribution networks of telecom companies) and technology-based distribution (e.g. mobile phones and internet).
- 1.29 Delivery could also be enhanced via community-based schemes or groups, and credit unions, as well as innovative mass-based distributors such as retail shops, post office outlets, religious associations or trade unions. Not only could these alternative outlets potentially overcome geographic barriers, they can also be important in reaching customers more cost effectively, leveraging infrastructure, and overcoming issues of mistrust.

¹¹ For embedded products, customer understanding and empowerment can be helped by the requirements of paragraph 4.41.4.

Insurers

- 1.30 To overcome barriers to inclusive insurance markets, insurance may need to be offered by a variety of insurers with different institutional forms, for example, entities that are for-profit or not-for-profit (as defined by the insurance supervisor or any other competent body under the national laws). Providers could include death-benefit associations, mutual and cooperative insurers, commercial insurers and dedicated microinsurers.
- 1.31 To illustrate the potential for variation from conventional market practices, the following examples are provided of entities that may help remove barriers to inclusion.
- 1.31.1 Large insurers - operating in the more conventional market seeking to provide services to the underserved market segment;
- 1.31.2 Insurers of a smaller size - Some of whom may already exist but are informal. While this paper takes the position that access should be to formal insurance products provided by formal insurers, it also recognises that informality needs to be addressed and may require both regulatory responses that reflect the size, nature and complexity of the risks involved, as well as the need for well-designed transition periods. Both are discussed in more detail below. Some jurisdictions recognise smaller insurers that are dedicated to providing services and products to underserved markets and, as a result, operate a license that is limited in scope and are sometimes referred to as “dedicated microinsurers”.
- 1.31.3 Entities that also have non-insurance financial or non-financial services - leveraging other relationships with potential customers or with service delivery mechanisms already in place can overcome barriers to access. There are cases where large entities become involved in insurance services and the insurance business is very small compared to the total operations, for example, telecom companies that have found success in providing other financial services through phone handsets and networks. Smaller entities may have both insurance and non-insurance business that is not substantial. Examples would include cooperatives engaged in agriculture that also become involved in insurance services related to their member’s crops, health providers that offer health insurance-type benefits, or funeral providers that offer funeral insurance arrangements. As a result, the paper discusses the implications of mixed entities providing insurance as well as the roles and relationships of other supervisors who may have a different responsibility to that of the insurance supervisor.
- 1.31.4 Pilots – this refers to innovations advanced through experimentation. Some projects can lead to confirmed innovations that are then ‘scaled-up’, others may fail and cease. Pilots are currently being conducted by a broad range of entities, sometimes with the support of sponsors that can bring substantial resources to the project. Other pilots may be less formal or less substantial.

Microinsurance Definition in IAIS Papers

- 1.32 The IAIS has defined “microinsurance” as insurance that is accessed by low-income populations, provided by a variety of different entities, but run in accordance with generally accepted insurance practices (which include the ICPs). Importantly, this means that the risk insured under a microinsurance policy is managed based on insurance principles and funded by premiums. Premiums can be privately or publicly

funded, or a combination of both. The microinsurance activity itself should therefore fall within the purview of the relevant domestic insurance supervisor.

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

2 Objective of providing inclusive insurance products and services within the supervised market

- 2.1 The interpretation of how the ICPs are applied consistent with inclusive insurance markets reflects:
- the objective of including insurance services within the insurance supervisory regime;
 - the reality that there is a minimum point below which it is not possible to effectively retain and manage insurance risk; and
 - the need for appropriate transitional arrangements where insurance schemes had operated outside the supervisory system in the past.

All entities that act as insurers should be subject to licensing

- 2.2 Barriers making it uneconomic for formal insurers to provide products and services result in insufficiently inclusive insurance markets where a part of the market is underserved, and without “effective access” (as defined in paragraph 1.9). Some argue that there is a case for exemptions to be made because regulatory burdens are, themselves, a barrier. Informal risk management approaches may exist (insurance services provided in a manner that are either illegal or are legally excluded from the definition of insurance in the jurisdiction¹²).
- 2.3 Standard 4.1 indicates that insurance activities should be conducted by licensed entities. When defining regulated insurance activities (Standard 4.2), jurisdictions may decide that some limited activities are not “regulated insurance activities” (Guidance 4.2.1). Such exclusions, however, should take into account the need for appropriate alternative safeguards to protect policyholders (Guidance 4.2.2).
- 2.4 Enhancing inclusive insurance markets should not create a system where customers have increased access but only to products and services that are of a materially lesser quality. The products and services delivered should not have an unacceptable probability of not delivering the promised benefits.

¹² Refer Standard 4.2 of the ICPs that requires the insurance legislation to define regulated insurance activities and prohibit unauthorized activities.

-
- 2.5 Everyone should be offered the opportunity to be part of the formal financial system. Customers should be accorded the benefits of prudential supervision and fair treatment. Innovations in services and providers do not usually occur in a manner that eliminates risk and, as such, innovations that enhance inclusive markets should be subject to appropriate supervision. When seeking to enhance inclusive insurance markets, bringing the underserved and unregulated into the formal financial system facilitates inclusion in a safe and orderly manner.
- 2.6 When considering the possibility of unlicensed or exempt activities, the overall objectives of supervision are an important guide. Exemptions should reflect insurance business activities that do not raise issues with respect to promoting the maintenance of a fair, safe and stable insurance sector for the benefit and protection of policyholders (Standard 1.3). When seeking to enhance inclusive insurance markets, it is usual that the underserved customer group is not only deserving of effective insurance services that are fair, safe and stable but that they may be even more vulnerable. Services not provided within the regulated sector may give rise to unfair, unsafe or unstable outcomes. The failure of informal or exempt delivery to make good on promises to customers, if perceived to be insurance, not only affects vulnerable customers but also impacts the stability of the formal market and sets back the development of the sector.
- 2.7 For these reasons, it is unlikely that the objectives of insurance supervision (Standard 1.3) will be advanced by providing exemptions that increase access to non-regulated and non-supervised insurance services. All entities that act as insurers for products directed at supporting inclusive insurance markets should be subject to licensing and supervision. The licensing of innovative “insurers” should consider the proportionate nature of the licensing method and process, the possibility of using a registration option (see Guidance 4.1.6 for both of these), and the potential for the license to be conditional restricted (Standard 4.8) or limited in scope (Standard 4.9).

There is a minimum size required to retain insurance risk

- 2.8 There will be situations where an entity that is proposed to be licensed cannot retain and manage insurance risk consistent with the objectives of insurance supervision set out in Standard 1.3. Specifically, there is a minimum size below which it is not possible. The minimum size reflects the need for (a) risk pooling to exist (technical characteristics) and (b) a minimum of effective business processes to manage retained risk (business characteristics).
- 2.9 There should not be a necessity for exemption from the application of the ICPs. Well-designed proportionate solutions may be needed but should be sufficient. This is discussed further in section 4 below. Every effort should be made to find solutions, and provide transitional arrangements. However, it needs to be recognised that some entities will simply be too small to retain insurance risk on their own balance sheet.

Mixed entities

- 2.10 Some entities involved in other business activities may provide or intend to provide insurance. Given the goal that insurance is provided within the formal sector, supervisors need to consider special issues that may arise in these cases.
- 2.11 The ICPs recognise the risks associated with mingling insurance and non-insurance businesses together in the one legal entity and stress the importance of effectively managing risks even when life and non-life insurances are issued by the one insurer (refer Guidance 4.3.4).

-
- 2.12 Establishing a separate legal entity to act as the insurer is the most appropriate solution rather than to accept mixed operations as an operating model.
- 2.13 For larger entities, the requirement for a separate legal entity should not be a material barrier. Larger mixed entities may, however, start their efforts with a “pilot”. Pilot situations can be part of a transitional arrangement.
- 2.14 Smaller mixed entities also should establish a separate entity for the insurance business. This is likely to be the most effective way to ensure that insurance assets and liabilities are properly managed. When pre-existing mixed schemes exist, however, a transitional approach may be required.

Licensing pilots

- 2.15 Pilot schemes should be considered to be entities that need to transition to a more normal status. It is most likely that consideration can be given to a registration process for pilots (Guidance 4.1.6). When developing the registration requirements, it will be important to consider the nature of the risks and the expected volumes of business.
- 2.16 In seeking to include pilot schemes in the formal system, the motivation is:
- the protection of the interests of customers; recognising that issues covering the full range of protections may arise regardless of the fact that the project is a pilot;
 - the need for the scheme promoters to be aware of, and actively considering the modalities for the operation of the scheme after it has become successful; and
 - the potential that pilots that prove unsuccessful may still have residual promises to customers.
- 2.17 Pilot schemes are initiated to test an approach and learn what modifications, if any, may be needed. Regulatory arrangements or less central legal issues may not be considered. Supervisors will be interested, however, in whether the customers have access to normal insurance supervisory protections ranging from adequate security to fair treatment from point of sale to claim and, if necessary, complaint resolution. In the event that the pilot does not go beyond the pilot phase, and outstanding obligations remain, supervisors will want to know how these obligations will be managed or transferred.
- 2.18 One option would be to ensure that the customers are made aware of the fact that they are participating in a pilot and that some normal protections are not available directly; alternatively to require the promoters to provide them in other ways. This is likely to be a complex and disproportionate solution.
- 2.19 Another option would be to amend the law to allow all pilot schemes to be covered under the conventional processes. This may be complex and time consuming and could hold up the conduct of a worthwhile pilot.
- 2.20 A preferable option might be to put in place some temporary and equivalent arrangements. Some examples might include requiring a deposit in lieu of capital in a separate legal entity or separately identified assets.
- 2.21 Guidance 4.1.6 provides guidance in applying the licensing regime to pilot schemes. Supervisors may introduce a registration arrangement that can be used on an interim basis. Following the successful conclusion of the defined pilot phase, however, promoters must be required to apply for a more conventional license or wind up the pilot in an orderly manner protecting any remaining customer interests.

Formalising the informal – managing transitional arrangements

- 2.22 Given the overall objective, that informal insurance is undesirable, the existence of an informal sector may need to be formalised to give effect to this objective. It is not expected that such a process need necessarily occur without transitional arrangements and processes. Transitional arrangements may be necessary to allow informal insurance to migrate to a regulated environment. They may also be relevant when regulatory arrangements anticipate that insurers will form and build capacity over time, or when pilots are conducted.
- 2.23 When seeking to formalise an informal sector, a clear and transparent pathway should be provided. As a first step, all informal entities providing insurance services should, at least, be registered through a process that is clear and transparent (see Guidance 4.1.6) and meet minimum requirements.
- 2.24 Once registered, entities should operate a restricted business model reflecting the extent that their business is lower risk, smaller, and less complex. Conditional licenses could be used (as envisaged under Standard 4.7). The granting of conditional licenses is an important power to provide to supervisors when seeking to expand access to insurance markets whether transitional issues are relevant or not.
- 2.25 Accepting (imposing) restricted business models with commensurate recognition of the impact on the nature, scale and complexity of the risk should be implemented to encourage the path to a more formal status. The “restriction with recognition” approach should incorporate incentives to formalise as organisations grow
- 2.26 As an example, consider a very small insurer that may be limited to a defined product and to investing in assets in licensed banks – matching its business model. Given these conditions, the requirements regarding investment policies or asset oriented Enterprise Risk Management (ERM) systems can be less onerous and could appear to be a “concession” but would be consistent with this prohibition.
- 2.27 As the organisation gets larger, it may feel that it would be better able to serve its customers if it was to offer some additional types of cover, and would provide a better value if it was able to adopt a more aggressive investment portfolio to enhance investment returns – both would require investment in risk management systems similar to what would be expected of larger insurers. The “concession” regarding investment policies and ERM would be lost at the same time as the “restriction” on investments and product mix were lifted.
- 2.28 Regulatory arbitrage (decision making primarily resulting from regulatory considerations that may be counter to economic considerations independent of regulation) may be a concern when a dual system exists in the market. This can be perceived to occur when existing insurers are competing with the new entities that operate with different conditions because they are subject to rules introduced as part of an innovation or a transitional arrangement.
- 2.29 One option is to restrict the new approach to the new players. This, however, may not facilitate full innovation because it could place an additional and inefficient cost on existing players. For example they may need an additional license to offer the product. Also it could act as a barrier to access if existing insurers or intermediaries are prohibited from entering a business line that they would be interested in. It is undesirable to prohibit existing insurers or intermediaries who wish to make efforts to enhance inclusive insurance markets because of a regulatory restriction.
- 2.30 Therefore supervisors need to avoid approaches that are inconsistent and could lead to regulatory arbitrage. This challenge can arise with transitional arrangements, or specially tailored regulation. In such instances, attention is needed to ensure that

perverse incentives are not created and differentiation is limited only by the nature scale and complexity of the risk.

Cooperation in support of transitional arrangements

- 2.31 Material transitional issues that involve a large number of entities may create challenges for supervisors. Some entities may not be familiar with the supervisor's expectations.
- 2.32 It can be difficult to design and implement new supervisory systems and infrastructure when a large number of entities operate under transitional arrangements, but only some are expected to emerge as insurers. Others chose to exit the business or focus on distribution and servicing of products issued by other insurers. In such cases, it may not be clear how many entities will be supervised once the transition is complete.
- 2.33 Supervisory coordination and cooperation in such cases can be helpful, especially if other authorities have longer experience, or deeper interaction, with the transitional group. They may have existing systems that can facilitate access to entities or data collection in an interim period. Some (for example, fiscal authorities) may also have options for leverage or enforcement actions that could be efficient or effective in the transitional period.

3 Innovation

- 3.1 When seeking to enhance inclusive insurance markets, it is necessary to facilitate innovative practices. This section focusses on innovations in the types of entities and business models that may become involved.
- 3.2 By definition, when the market is less accessible to a group of customers, conventional approaches have not succeeded in overcoming the barriers to access. In situations where access to insurance markets is impeded, innovation is required. Innovation is important to bring down costs, reduce a lack of affordability, extend the reach of providers, or recognise innovations in technology or processes, to name just a few. At the same time, innovations can make the provision of the products and services not only attractive to customers, but economically viable¹³.
- 3.3 Regulation and supervision needs to permit innovative approaches while protecting policyholders. The primary law¹⁴ should be as broad and permissible as possible recognising, or not prohibiting, a wide range of business models, processes, potential market participants and service providers. Although the flexibility of the primary law may be implemented progressively through subsidiary regulations and guidance as

¹³ Different approaches may include products that provide different benefit packages more relevant to the target market, facilitate premium collection more aligned to the ability and manner that the target group may have funds available to make such payments, different distribution approaches that better reach the customers, different service delivery such as those associated with premium collection or claim payment, and claim processing practices that better meet the needs of customers in economically more vulnerable situations.

¹⁴ Primary law generally requires full legislative consent. In the ICPs, the term "legislation" is used to include primary legislation and 'secondary and other forms of legislation', including rules and regulations, which have the legal, force of law but are usually the responsibility of the supervisor. (Note footnote will not be carried into final text as it is defined elsewhere in the ICPs – it is included for clarity in the consultation phase only)

-
- well as supervisory policy, the overall flexibility in the primary law ensures that supervisors can deal with useful innovations as they become available without delay.
- 3.4 Consistent with Standard 1.2, the primary law should provide supervisors with the tools and delegated powers to develop more detailed rules that are not materially limited in the scope. Limitations in scope tend to provide limited flexibility and accommodate specific innovations – by definition those that have been thought of already. It is preferable to be able to provide guidance in a flexible fashion specific to each innovation as it emerges.
 - 3.5 Some supervisors are able to implement arrangements for enforceable detailed rules through a general rule making power whereas other are able to do so through alternative means such as broadly applying license conditions. The ICPs recognise alternate means of achieving the same results as part of the assessment criteria (refer paragraph 25 of the ICP Assessment Methodology).
 - 3.6 Limitations in the defined institutional form may curb competition, encourage regulatory arbitrage, or hinder formalisation and integration of unregulated or informal providers into the regulated financial sector.
 - 3.7 Standard 4.2 addresses the definition of permissible legal forms of domestic insurers. Permissible defined legal forms should be as broad as possible and practical. Intermediaries should also be sufficiently flexibly defined in terms of their legal form (Guidance 18.0.10 recognises some of these forms) functions and qualities. In some jurisdictions, for example, insurers have to be incorporated, and listed entities and intermediaries have to be residents or citizens – both definitions have the potential to materially limit innovations.
 - 3.8 Powers to apply conditions or limitations to licenses (Standards 4.7 and 4.9) can be useful tools. Through these tools, the broad facilitation of the primary law in terms of entities and legal forms can be made more focussed in practice. For example, conditions or limitations could be used to create a “dedicated microinsurer” license option.
 - 3.9 Depending on the nature of the challenges to access to inclusive insurance markets in a jurisdiction, it can be useful to recognise the role that can be played by mutuals, cooperatives and other community based organisations (MCCOs) for the provision of such services to particular segments of the population. These organisations may be relevant as either insurers or as intermediaries or both.
 - 3.10 As a wider range of entities may be licensed, it is also important that arrangements for winding-up entities of these newly eligible legal forms are reviewed. If necessary, the requirements for winding-up may need to be updated to ensure that they are consistent with the obligations of the ICP 12.
 - 3.11 When seeking to enhance access to inclusive insurance markets, innovative approaches to premium collection and claims payment – for example, by using different technological solutions - may require special attention (Standard 18.6 may require careful implementation in this respect).
 - 3.12 Sometimes an inability to bundle life and non-life products in the same insurer is cited as a barrier to access because of increased costs. Innovative approaches may include bundling together various life and non-life products, including health benefits. Depending on the nature of the market, this may represent a way to enhance access to insurance services.
 - 3.13 How bundling is done varies. In some cases it can be achieved through packaged distribution of products from different insurers (within the same group or not). This approach requires the premiums, once collected, to be separated between the life and non-life components and for claims to be identified separately.

-
- 3.14 Another way would be to allow life insurers to issue some non-life products on the same balance sheet (and vice versa). In many jurisdictions, for example, some personal accident products are issued by both life insurers and non-life insurers. In others, recognising the limited risk to the supervisory objectives, supervisors have the power to deem a product of one class to be acceptable under the other. As is noted in Guidance 4.3.4, this should involve adequately separating risks.
- 3.15 For requirements to reflect the nature, scale and complexity of the risks, less onerous obligations may be imposed on composite insurance where this is permitted only with respect to limited products than those that would be imposed on a composite insurer with no limitation.
- 3.16 A separate issue can arise when implementing Standard 4.2. Under this standard insurance activity (or insurance) is defined and unauthorised activity is prohibited. Sometimes admissible insurance can oblige risks and customers to be in particular places. These requirements present barriers to access, for example, to migrant workers. Supervisors should review the impact of such rules when seeking to enhance access to inclusive insurance markets where migrant workers are common and numerous.
- 3.17 When seeking to enhance access to inclusive insurance markets, the absolute minimum bound for the Minimum Capital Requirement (MCR) may be revised to a lower level reflecting a lower risk profile and more limited need for detailed governance and risk management. This allows a wider range of entities to participate in the provision of insurance services. Lower levels for the minimum bound may also be part of a transitional arrangement. In both these situations, see Guidance 17.4.6. In some instances a lower level may be balanced by more emphasis on governance and risk management.
- 3.18 The supervision of intermediaries applies equally when seeking to enhance access to inclusive insurance markets. Intermediation between insurers and customers takes a wider variety of forms. To better reach underserved customers, intermediaries could include an insurer's direct sales staff, independent or exclusive agents, banks and their correspondents, retailers, microfinance institutions, post office agencies, NGOs, mutuals, cooperatives, social and religious associations, utility service providers (electricity, gas, telephone and mobile) and specialized microinsurance brokers or agents, or electronic means
- 3.19 Standard 18.1 envisages both individual and other forms of intermediation, and usefully identifies the benefits of conditional, limited or more specific licenses. Approaches that are consistent with the nature scale and complexity of the risk to achieving supervisory objectives will be important to ensuring the objectives of ICP 18 are achieved when seeking to enhance access to inclusive insurance markets.
- 3.20 Intermediaries often play an important role beyond their traditional functions. In particular, their role tends to be more critical in terms of promoting public trust and confidence in insurance, conveying information in a more accessible manner to customers, promoting insurance awareness, and supporting the development of financial education. They may also be fulfilling some administrative functions beyond what a broker or agent would typically do.
- 3.21 It may be necessary to ensure that the primary law facilitates a wide range of forms of intermediation and that supervisory rules are established covering the functional details for each permissible form of intermediary. Requirements relating to individuals should not prohibit other legal forms such as corporate entities or cooperatives acting as intermediaries. Intermediation options should be considered based on economic principles rather than regulatory bias or arbitrage (Standard 18.1).

-
- 3.22 Restrictions on commissions that create a disincentive to provide services to the underserved segment of the population should be avoided. Additionally, particularly when intermediaries have an increased role in other areas such as ongoing servicing functions, remuneration should encourage effective servicing beyond the point of sale. In some innovative models, the role of the intermediary may not be principally to provide insurance services. Instead they may be oriented to providing some other service or product to the customer as their primary focus. However, through this other role, insurance services can be effectively delivered. Requirements may need to reflect the fact that the distributor's main source of income is not from the sale of insurance. In all cases, the key challenge is to ensure that requirements related to remuneration take account of a range of situations and are designed so as to create sound incentives (Standard 18.5).
- 3.23 In the case of a specific intermediary class being established that focuses on the underserved sector, expectations of the supervisory regime should reflect business expectations, including both more limited and additional functions that might be asked of intermediaries (Standard 18.3).
- 3.24 The form and content of disclosures should reflect the specific circumstances of the market including how such disclosures should be made, what language is used, and that the form takes account of the levels of financial and general literacy (Standard 18.5).
- 3.25 In these circumstances supervisors need to take a proactive approach to monitoring (Standard 18.6). Although the scope of issues may be similar, supervisors should recognise that customers from the underserved markets may not raise issues and, in fact, they may face barriers to doing so. One indicator of potential problems could be low claims ratios. In the case of products that appear to offer low value to customers, low ratios should be investigated to understand if other services are being used or if there are situations or practices that should be stopped. Supervisors should also analyse complaints against insurers and intermediaries, identifying inappropriate conduct.
- 3.26 Finally, to encourage innovation and various business models, regulations that prevent insurers from providing risk bearing capacity to innovative distribution channels should be reviewed. Risk bearing capacity should be able to be provided to innovative distribution channels regardless of form, while protecting policyholders.

Particular issues that arise when expanding the eligible entities to include mutuals, cooperatives and other community-based organisations

- 3.27 In some situations, MCCOs can play an important role in the delivery of services and products. Where this is a new development in the insurance market, there are some issues that supervisors should be aware of in the implementation of the ICPs. These are discussed more fully in the Issues Paper, but key items are discussed below.
- 3.28 Several standards relate to the board. Standard 5.2 highlights the need for board members to be "suitable" including their individual competence. Some MCCOs may find it challenging to maintain adequate board level expertise if the organisation's rules result in a lack of continuity of directors or when directors are drawn from a membership that cannot be expected to have the range of expertise necessary. Standard 7.3 highlights the need for boards to have an appropriate mix of individuals. This is referred to as "collective suitability". To ensure boards are made up of individuals with the necessary competence (individually and collectively), some insurers (and the supervisory arrangements) have considered reinforcing training of directors, increasing direct access by board members to specific expertise, including

-
- allowing non-member experts on boards, and/or avoiding coincident terms for all board members¹⁵.
- 3.29 Conforming with Standard 7.4 which deals with duty of care and potential for conflicts of interest, unique issues can arise for MCCOs. In comparison to other insurers, MCCO board members may be representative of the policyholder / member body, will usually feel a stronger link and obligation to policyholders, and be less subject to types of conflicts of interest between shareholders and policyholders.
- 3.30 To this extent, these issues could be less of a supervisory concern provided the democratic process works effectively. Some supervisory approaches recognise the strength of democratic processes whilst, at the same time, requiring these processes to meet specific conditions.
- 3.31 As organisations become very large the processes may be less effective. This requires constant scrutiny from the supervisor. Additionally, although these organisations do not have to balance the interests of policyholders and shareholders, there will still be similar needs to balance the interests of different groups of policyholders.
- 3.32 Whether members can effectively exercise their responsibilities as owners and voters will depend on the information disclosed to them. This may be subject to specific obligations. It may also be subject to specific requirements as part of the effective implementation of the requirements of public disclosure under ICP 20. Since the effectiveness of disclosure underpins the effectiveness of the democratic element of such organisations, it should be subject to supervisory assessment.
- 3.33 Under Standard 16.11, MCCOs may need to align their capital needs with available resources more carefully than entities that can raise capital more flexibly and this should be a matter of attention in their own risk and solvency assessment.
- 3.34 Given the nature of the MCCO structure, capital will also be an area where the requirements will need to be considered and possibly adapted if MCCOs are new to the market. Standard 17.11 should be applied such that any reliance on guarantees should be of a limited duration during a start-up period and be quickly replaced with retained surpluses. Some regulatory and supervisory systems also recognise guarantees from third parties; this has been the way many small mutual insurance entities started.
- 3.35 Normally, regulatory or supervisory arrangements do not permit capital that can be raised through future calls on members as “callable but unpaid capital or reserve items” to be eligible to meet regulatory capital requirements. This may be permitted

¹⁵ For example, a Mutual, Cooperative or Community based Organisation (MCCO) based on membership of a particular profession or industry may not automatically draw a board with experience in commercial and insurance related matters. Many MCCOs are conscious of this issue and provide regular training for new directors and on an ongoing basis although it may not always be easy to access such training without significant effort. Some MCCOs also indicated their boards are only constituted by members elected and not by any members who also hold management responsibilities and as such are “wholly independent”. In addition, the access of the board to independent expert at the board’s own initiative; the ability of individual directors to initiate investigations or to secure advice; or very robust processes whereby directors can obtain access to management to inquire and understand issues, can enhance their oversight role and help these directors to carry out the responsibilities expected of them. In some markets, MCCOs are obliged to or spontaneously adopt the practice of having some appointed independent directors who bring particular expertise to the board. In others, MCCOs may have access to technical service providers as a cost effective way to build and maintain expertise. Importantly for supervisors, however, even if all these steps are taken, it still should be recognised that the selection of governing bodies could present issues in some cases.

for MCCOs if, among other things it can be demonstrated that such calls had been met in practice and there is very strong solidarity amongst members.

- 3.36 The balance between retaining capital to support business growth and distributing profits demands consideration of fairness and equity between generations of policyholder members. Supervisors should have an interest in capital adequacy and fairness and equity between generations of policyholders. Conflicts can arise when trying to find a balance between retaining capital to support business growth and distributing profits (Standard 19.2).
- 3.37 Regarding Change of Control under Standard 6.9, when the market includes, or potentially includes, MCCOs supervisors must determine how demutualisation would be implemented should it arise.
- 3.38 Finally, proportionate approaches to supervision, the potential for standardised approaches developed across the sector, and accommodative consideration of organisational structures such as apex organisations¹⁶ and service providers, can ensure that the supervisory burden is balanced against the risks associated with broader and more accessible inclusive insurance markets. There is a tendency for apex organisations to be a feature of cooperative and mutual sectors. As a result, they provide opportunities for the supervisory arrangements to leverage these structures to deliver both more effective supervisory oversight and lower cost.

4 Proportionality and its application to inclusive insurance markets

- 4.1 An important implication that “inclusive finance should be effectively supervised” is the appropriate application of the “proportionality principle” in practice.
- 4.2 Throughout this paper, when discussing the need for supervision to be proportionate, there are references to the goal of using proportionate approaches to enhance inclusive insurance markets. In some cases, the motivation is to ensure that the relevant supervisory objective is available or achieved effectively in practice. In contrast, disproportionate obligations can sometimes be ineffectively implemented and not deliver the intended result.
- 4.3 In some cases, proportionality may be used to ensure that costs are “not prohibitive in practice”; that is, cost is not an undue and material barrier to inclusive insurance markets.
- 4.4 Consideration should be given to how the principle of proportionality should be applied in each of the following contexts:
- designing and implementing regulatory requirements;
 - assessing insurers’ and intermediaries’ adherence to regulatory requirements; and
 - exercising supervisory powers.
- 4.5 Where relevant and appropriate, requirements laid down in the ICPs should be applied in a manner that takes into account the nature, scale and complexity of the risks inherent in the individual insurance business. An insurer should employ systems,

¹⁶ Apex organisations are entities that are formed to provide services to groups of mutual organisations or to facilitate groupings of such organisations or both. They can be owned or operated by the group of organisations that they provide services to or be more independent in legal terms.

-
- processes and measures that are proportionate to the risks it is exposed to, or alternatively, reduce the risks it faces.
- 4.6 The supervisor, when assessing the nature of the risks, considers, among other things:
- the type of business from which risks originate (e.g. life insurance business or crop insurance business); or
 - the specifics of the insurer's portfolio; or
 - any risk mitigation instruments (such as reinsurance or derivatives) applied, and their impact on the underlying risk profile.
- 4.7 When assessing the scale of a risk, the supervisor takes regard to both the likelihood of the risk being realized and the impact of that risk when realized.
- 4.8 The supervisor uses more sophisticated and elaborated tools to analyse and quantify more complex risks. The management of risks by insurers would also be expected to be more sophisticated when risks and risk profiles are more complex.
- 4.9 In assessing what is proportionate, the focus needs to be on the combination of all three criteria. For instance, a business may be small scale but still include complex risks; in this case it should not be allowed to use simplified methods. Simplified methods may be appropriate under very specific circumstances, however, for a large scale business with a simple risk profile (uncomplicated, supporting only limited risk). By way of example, for reinsurers operating in the market generally, supporting inclusive insurance initiatives or not, their business is likely to be complex. This complexity would not be reduced by adding participation in initiatives to improve access so there would not be a material change to the supervisory approach.
- 4.10 Similar considerations would apply when considering the application of the relevant ICPs to obligations on intermediaries and for consumer protection.
- 4.11 In order to be considered proportionate, a measure has to be, at least, suitable, necessary and appropriate to attain the supervisory objectives of a jurisdiction. It should not go beyond what is necessary to achieve the objectives (be "disproportionate").
- 4.12 Risk of, or to, the insurer is only one part of the consideration. Risk to the overall supervisory objectives (as identified in Standard 1.3) is also very relevant. In some situations, for example, the supervisor may consider that the risk to the supervisory objectives does not exist with respect to a particular issue even though the technical risk is complex.
- 4.13 Appropriateness requires that the drawbacks of a supervisory measure are not totally disproportionate to the benefits. The measure should not be adjusted for proportionality however, if by doing so it will result in a supervisory objective not being met. A supervisory measure is necessary if there is no less onerous method available that is equally or even better suited to serve the objective.
- 4.14 Supervisory measures should not lead to undue costs for insurers or cause other disadvantages that are disproportionate to the supervisory aims. When seeking to enhance accessible insurance markets, where there is a choice between several appropriate measures that are similarly effective in reaching supervisory objectives, the least onerous measure should be applied.
- 4.15 The proportionality principle works two ways: it justifies simpler and less burdensome ways of meeting requirements for low risk activities; and it also justifies applying more sophisticated methods and techniques for more complex risk situations. Usually small and medium-sized insurers find relief in the application of the proportionality principle but proportionality is not always size-based.

-
- 4.16 Proportionality does not mean the introduction of automatic and systematic simplifications for certain insurers or intermediaries. The principle will be applied where it would be disproportionate to the nature, scale and complexity of the insurer's or intermediary's business to apply the general rules (quantitative and qualitative) without adjustment. The individual risk profile and the impact on supervisory objectives should be the primary guides in assessing the need to apply the proportionality principle.
- 4.17 Regardless, the system must remain supervisable. Standard requirements should be proportionate to avoid any un-level playing field. Finally, the application of the proportionality principle should ensure that the same level of protection is guaranteed for all customers. A lack of resources should not be a justifying reason for proportionality.
- 4.18 There are a number of areas where specific attention to the application of proportionate requirements can be relevant. These are discussed below.
- 4.19 Administrative procedures can be a barrier to access if they are not well designed, thereby limiting the amount of innovation or forcing innovations to remain in the informal sector. Examples of areas where "procedural proportionality" would be relevant include:
- 4.19.1 Applying for a license (Standard 4.3) - information required and procedures may be different for different entities;
 - 4.19.2 Demonstrating that Board Members, Senior Management and Key Persons in Control Functions, and Significant Owners are suitable (Standard 5.3):
 - 4.19.3 Notifications of changes in Board Members, Senior Management, Key persons in Control Functions and Significant Owners, and of any circumstances that may materially adversely affect the suitability of its Board Members, Senior Management, Key Persons in Control Functions and Significant Owners (Standard 5.4);
 - 4.19.4 Requirements regarding corporate governance (ICP 7);
 - 4.19.5 Expectations for risk management (ICP 8) - limited risk management obligations should be coupled with restrictions on activities that limit risk to consistently appropriate levels.
 - 4.19.6 Procedures for valuation (ICP 14) - when including a wider range of potentially smaller institutions, it may be necessary to consider applying standards that leverage sector-wide expertise to develop valuation guidance capable of being economically implemented for small, low risk, less complex insurers.
 - 4.19.7 When including a wider range of potentially smaller institutions, it may be necessary to consider applying the standards of "Enterprise Risk Management for Solvency Purposes" ICP 16 by specifically limiting activities and prescribing specific requirements focused on the nature of risks undertaken and capable of being economically implemented for small, low risk, less complex insurers so as to deliver the intent of ICP 16. Such limitations in activities could then be reflected in the obligations arising through the balance of ICP 16 to the extent that they remain relevant.
 - 4.19.8 Intermediary regulation (ICP 18) - particularly relevant in terms of compliance obligations for applications (Guidance 18.1.5). Requirements regarding professional knowledge, financial resources, codes of conduct, etc. should also be consistent with the focus of the intermediaries. Requirements should ensure that intermediaries have sufficient

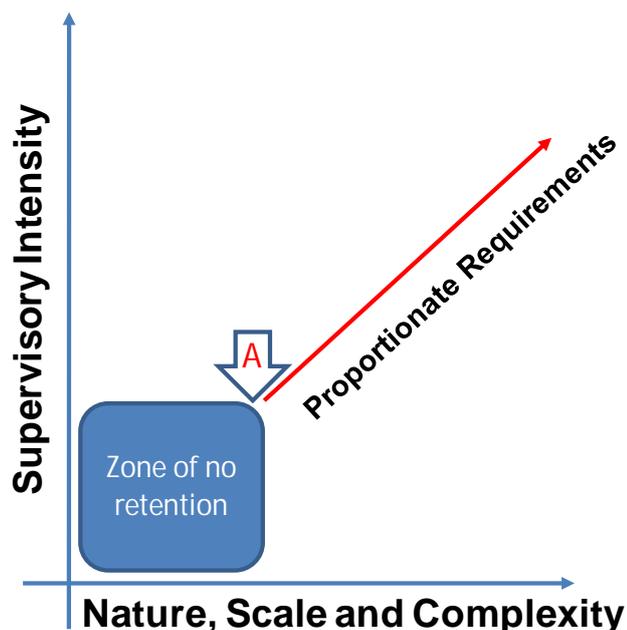
incentives to reach and service the underserved and are skilled to carry out the task effectively while maintaining the obligations for policyholder protection.

- 4.20 The solvency regime (ICP 17) should apply to all insurers. However, the special characteristics of products that may increase access to inclusive insurance markets for the underserved, requires an approach that reflects the nature scale and complexity of the risks, in particular the fact that very small undertakings typically have less complex risk profiles.
- 4.21 Given the nature of the lower risk profile, the costs of interpreting, applying and checking compliance with requirements should not be disproportionately high. Requirements need to take account of managerial capacity and expertise.
- 4.22 It may be necessary to recognise that some actuarial functions might be supported in a shared fashion across insurers or the insurance market, specifically actuarial approaches used in setting technical provisions, premiums, and pricing. When enhanced access is accompanied by an increased number of entities providing defined products then insurers may only be able to meet the intention of Standard 8.5 by applying collective or standard methods that have been subject to actuarial development. This should be acceptable when the nature scale and complexity of the risks justify it. Some of the functions in Guidance 8.5.5 may be formula-based at the insurer level and may be rendered unnecessary by specific restrictions (such as strong restrictions on investments), or other regulations or conditions.

Proportionate approaches have a lower bound

- 4.23 As noted when discussing licensing of entities, there will be situations where an entity that is proposed to be licensed cannot retain and manage insurance risk reflecting (a) technical characteristics, and (b) business characteristics.
- 4.24 The economic benefits of insurance arise when risks that are not perfectly correlated are pooled together. Without this, there would be no insurance risk benefit from transferring the risk to the insurer. As the number of less than perfectly correlated risks in the pool increases, the effectiveness of the risk pooling increases.
- 4.25 So there is a level below which the benefits from risk pooling are insufficient. This minimum level will depend on the nature of the risks themselves, their volatility, and the extent that they are even partly correlated. The small size of a risk pool can act as a barrier to providing effective insurance. It will also impact the regulatory requirements for effective risk management.
- 4.26 For risks to be properly managed, insurers need adequate resources in terms of people, processes, and infrastructure. These requirements can reflect sound practices, but some may also arise from regulatory requirements. The appropriate levels of business resources will vary depending on the nature, scale and complexity of the risks retained.
- 4.27 The minimum point where an insurer can operate regardless the extent that the requirements reflect the nature, scale and complexity of the insurer is shown in Figure 1 as point "A". A perception as to what is the appropriate risk management or the minimum required infrastructure in such situations can vary and there will be a range of opinions. In this application paper, some suggestions regarding the absolute minimum requirements that would be applicable in all situations have been suggested in the section on "Absolute minimum requirements".

Figure 1: Representation of Minimum Point to Retain Insurance Risk



- 4.28 These “Absolute minimum requirements” can be considered to be requirements that are not able to be waived even in the most limited, smallest or simplest of risk situations. As an entity, of whatever form, increases in nature, scale and complexity, it would be expected to exceed these minimum requirements.
- 4.29 Regulation would be a barrier to access where the minimum requirements imposed by supervisors are disproportionate. In such situations, the regulations raise the minimum size that an entity would need to support the requirements due to the business characteristics imposed by regulation over and above that required by sound practices.

Absolute minimum requirements

- 4.30 There are some requirements where there appears to be an effective absolute minimum requirement that would apply to some of the ICPs and Standards in the smallest, simplest cases. These would appear to be universal.
- 4.31 For example, registration, (Guidance 4.1.6), and its application in either a pilot or in a transitional system (for entities that were previously informal) should include requirements to identify the organisation, its form, and to report to the supervisor after registration.
- 4.32 Guidance 9.2.3 elaborates on minimum reporting requirements. It is important that the design of minimum requirements is effective in securing the necessary supervisory objectives. Given the potential diversity of entities that may be involved in the insurance market through innovations, additional guidance regarding the minimum requirements may have to be considered.
- 4.33 For example, while the entity may produce a balance sheet and income statement, they may not be sufficient for supervisory purposes. The supervisor needs to have access to information that includes an income statement and balance sheet (or other information that is equivalent in terms of outcome) that:

-
- 4.33.1 identifies the effects of reinsurance on income statement and balance sheet items so as to facilitate the analysis of the insurance business on a “gross” and “net” or reinsurance basis;
- 4.33.2 relates to the insurance business specifically when the enterprise is involved in both insurance and non-insurance activities;
- 4.33.3 separately identifies expenditure associated with claims payments from those of operating and other expenses;
- 4.33.4 are provided not less frequently than annually or on request. Standard 9.4 refers to annual statements.
- 4.34 The requirements in paragraph 4.32 are intended to facilitate a minimum analysis for supervisors below which it is not considered to be prudent. As it is necessary to secure a view of the whole market, and as this application paper advocates that all insurance operations be included in the supervisory regime, these requirements should cover all entities that act as insurers. When a registration approach is taken either to facilitate pilot innovations or transitional arrangements, the requirements of paragraph 4.32 are also expected to be met.
- 4.35 Supervisors should consider collecting information from insurers beyond the minimum, for example, collecting information that would facilitate analysis of customer experiences. For example, customer experience measures could mean collecting information on new business flows so that renewal rates could be calculated. Discontinuance rates could be collected for some longer duration products. Statistics associated with claim payment times can be important particularly when dealing with customer groups with more limited financial resources. Complaints measures tend to be a main focus among market conduct supervisors. (refer ICP 19)
- 4.36 Supervisors often cannot collect some policy related measures without being disproportionate or mis-targeting. This includes collecting information about insurance access and use by historically underserved subgroups of the population. For many reasons, insurers cannot be expected to collect, retain and maintain information that would facilitate reporting these measures to supervisors. As a result, any effort to do so will be imperfect as a measure of access or reach. The extent that going beyond a premium based penetration measure provides material added value should be considered carefully against the costs and limited benefit from the additional refinement. To truly understand the situation on this issue, customer survey data would normally be more reliable even if it is less frequent¹⁷.
- 4.37 Similarly disclosure to the market (ICP 20) should not be materially different in scope. Specifically it should be sufficient for market participants to be able to benchmark their performance against the market as a whole and to a limited subset. Benchmarking should be possible, at least, with respect to premium volumes and growth, expense and claims ratios and would be facilitated by the disclosure of the balance sheet and income statements with the information set out in paragraph 4.32.

¹⁷ To measure the proportion of the subgroup population that uses insurance in a particular market, contrasted to having access to the products, it is necessary to identify the number of people who are in the particular market subgroup – something that would not be known to any insurer but could only be estimated. When examining the number of people in the subgroup who, for example, own policies, the number of policies in a particular definition is only a proxy as some of them may be purchased by people who were never in the subgroup, are no longer in the group but still maintain the policies, or have more than one policy, possibly with multiple insurers such that it is not possible in practical terms to use policy counts from insurers to provide a properly corresponding measure.

-
- 4.38 The implementation of ICP 19 on Conduct of Business is very important when seeking to enhance access to inclusive insurance markets. Because there is usually a diversity of customer situations not only between countries but also within countries, the way ICP 19 should be implemented cannot be prescribed in detail. Nevertheless, a clear focus on both outcomes and objectives is common across all markets.
- 4.39 The intention is to accommodate and facilitate increased access in a way that will increase financial inclusion while adequately protecting policyholders. Since customers that have not historically had access to inclusive insurance markets tend to have limited incomes and a low level of financial literacy, special care must be taken in dealing with the underserved.
- 4.40 When considering the need to inform customers, the form and content may need to be varied so that the objective is achieved. It may be the case that providing documentation is not always the most useful way to achieve the objectives and, in some cases, may be counterproductive (Standard 19.2). The objectives should include that:
- 4.41 customers are treated fairly (Guidance 19.2.4 refers and so does Standard 19.4 and 19.9 but the following are additional and specific), including:
- 4.41.1 realistically representing what the insurer, its products and services offer and balancing the commercial objectives of increasing sales with the objective of treating customers fairly. When giving advice to the customer, intermediaries and insurers should ensure it is fair and objective, recognises the benefits and costs of their product and the advantages and disadvantages of alternatives;
 - 4.41.2 providing clear and appropriate information regarding not only the product benefits but also the costs and obligations associated with the product and any restrictions or limitations;
 - 4.41.3 providing service in response to changes in the wider environment that may affect products and impact on customers, and giving service after the point of sale that includes keeping customers and intermediaries informed; and
 - 4.41.4 ensuring policyholders are aware that they have an insurance product, the identity of the insurer (or insurers as might be the case for bundled products), and the manner that the services¹⁸ should be accessed. Equally, when the insurance service ceases, whether it be through the actions of the policyholder or otherwise such as wind up or exit of the insurer, it is important that policyholders are made aware when their insurance is no longer effective.
- 4.42 Communication requirements are usually most effective when they are provided in the local language and in the context of a trusted interface/intermediary relationship.
- 4.43 Regardless of the regulatory and supervisory framework in place, customers must have a means to verify whether an insurer is regulated and/or supervised.
- 4.44 Standards and guidance encourage supervisors to understand the money laundering and terrorism financing risks in the insurance sector and to follow a risk-based approach. Rules should be enforceable and guidelines should be issued to assist

¹⁸ Services and benefits under insurance products includes not only the claim coverage but, for example, rights to fair resolution of complaint mechanisms and, in the case of participating contracts issued by mutual entities, may include the exercise of mutual democratic rights.

-
- insurers and intermediaries to implement and comply with requirements directed at anti money laundering and combating the financing of terrorism (AML/CFT). Furthermore, there should be an effective supervisory framework to monitor compliance with AML/CFT requirements.
- 4.45 Where the supervisor is not the responsible authority for AML/CFT, it should effectively coordinate with the competent authority, e.g. a financial intelligence unit. Guidance relating to ICP 22 recognises a risk-based approach¹⁹. However, some additional guidance may be useful.
- 4.46 The Issues Paper in Regulation and Supervision of Microinsurance recognised that the possibility for money laundering in microinsurance is low. The main reasons why microinsurance presents low money laundering risk are that:
- 4.46.1 The highest risk insurance products are investment-based products or high-value non-life insurance where insurance fraud could be committed to launder funds.
 - 4.46.2 Microinsurance tends to be a low-premium, low-benefit product with frequent rather than one-off premiums. There is therefore a mismatch between microinsurance and the “transaction needs” of money launderers.
 - 4.46.3 The types of risks normally included in microinsurance are not typically targeted for money laundering.
- 4.47 As financial service, microinsurance is, however, subjected to a country’s anti-money laundering regime. If this is done without recognition of its potential low-risk profile, this may increase transaction costs and create barriers to the take-up of insurance. In particular, obtaining Customer Due Diligence (CDD) documents such as proof of identity or address, or providing a photograph from prospective customers may pose a real barrier. When customers of microinsurance cannot provide conventional CDD records, alternative approaches should be developed.
- 4.48 When seeking to enhance access to inclusive insurance markets, supervisors should (Standard 22.1):
- 4.48.1 Determine the level of money laundering / terrorism financing risk posed by products targeted toward underserved markets in the jurisdiction; and
 - 4.48.2 Based on the assessment, tailor the AML/CFT regime applicable to the particular risk level. This may entail a simplified in CDD requirements or alternative approaches.
 - 4.48.3 The AML/CFT regulations for microinsurance need to provide for controls, which are risk-based and, therefore, not unnecessarily burdensome on the supervisors, insurers or public.
- 4.49 Regulations relating to AML/CFT need to allow for agents acting as the customer interface and as the extended servicing-arm of the insurers. They may need to allow for electronic transactions and documentation, which simplify, economise and speed up insurance activities.

¹⁹ The IAIS references the Financial Action Task Force paper *Risk-Based Approach: Guidance for the Life Insurance Sector* (October 2009) with respect to Guidance 22.1.1.

5 Roles and responsibilities

Financial sector policy

- 5.1 The introduction to the ICPs discusses preconditions for effective insurance supervision (paragraphs 19 to 25 of the introduction) giving specific attention to the role of a financial sector policy.
- 5.2 The G20 Principles point to leadership in cultivating a broad-based government commitment to financial inclusion to help alleviate poverty. In many jurisdictions, general financial sector policies promote financial inclusion for underserved segments. Access to insurance markets could be assisted by having that overall policy address insurance markets directly.
- 5.3 When seeking to enhance inclusive insurance markets, governments should include developing accessible insurance markets for underserved segments as part of financial sector policies in line with the G20 Principle 1.

The insurance supervisor in a leading role

- 5.4 ICP 1 “Objectives, Powers and Responsibilities of the Supervisor” states “The authority (or authorities) responsible for insurance supervision and the objectives of insurance supervision are clearly defined”. ICP 1 applies when seeking to enhance more inclusive insurance markets. Supervisors require the same clarity of mandate, legal foundation, and legal powers.
- 5.5 When seeking to enhance access to inclusive insurance markets, however, the roles of policymaking, regulation and supervision may often be shared among various agencies. Where there are shared roles, the insurance supervisor would be the most appropriate supervisory body to be given a leading mandate and role, as the insurance supervisor would normally have the necessary skills and expertise.
- 5.6 When such a ‘development mandate’ is given to the supervisor, this mandate should be explicit and subject to the same considerations as other mandates and objectives (Standard 1.2). The primary legislation may provide general support that is elaborated further in subsidiary statements (Guidance 1.2.2). These same considerations include, in particular, the importance of supervisors explaining how they interpret and implement their objectives especially when supervisors have both a development mandate and a prudential mandate (Standard 2.7 and Guidance 2.7.2).
- 5.7 The ICPs also discuss the need for:
 - available technical expertise; and
 - available appropriate dataas part of the preconditions for effective insurance supervision (paragraphs 19 to 25 of the introduction).
- 5.8 Country experience has indicated that these conditions are particularly relevant when seeking to enhance inclusive insurance markets. Preconditions (paragraph 22 of the introduction) recognise the need for skilled, competent, independent and experienced actuaries, accountants and auditors. Specific expertise with regard to a particular underserved segment of the market may need to be developed, the supply of professionals may need to be expanded, or other mechanisms put in place to ensure capable professionals play a role where their skills are needed and not only in more conventional market segments.

-
- 5.9 Limitations on available data (paragraph 22 of the introduction) may be a barrier to the inclusive provision of insurance products. This can be the result of data being insufficient or because data that is available is not specific to the risks faced by underserved segment. When the absence of appropriate data induces high margins of conservatism in prices, it can restrict access to insurance services by making them unaffordable or uneconomic.
- 5.10 Limitations of data may be more general, particularly information on the underserved market itself including the key barriers to access, the key risks faced by the underserved, and the manner that they look to address these risks. It is important that those developing policy and supervisory initiatives intended to enhance access to more inclusive insurance markets are able to understand these issues.
- 5.11 When limitations of skills and information have a material impact on access to inclusive insurance markets, supervisors should improve or alleviate the shortcomings by sponsoring projects, encouraging others to do so, or raising the need for projects to the attention of others.
- 5.12 When seeking to enhance access to inclusive insurance markets, it is important to consider both issues of financial security and maintenance of access to insurance services for policyholders involved in a portfolio transfer (Standard 6.10).

More diverse market participants impact the responsibilities of other supervisors

- 5.13 If a wider range of entities become involved in the insurance sector, this brings with it a wider range of government agencies that are involved. Several aspects of the ICPs address cooperation and collaboration between supervisors and would be usefully applied in these situations. Other government agencies would be responsible for other laws and regulations. However, it is unlikely that the other agencies' incentives and obligations are fully aligned with the ICPs. In the absence of specific attention, they may not be subject to the enhanced confidentiality and cooperation requirements expected from financial sector supervisors.
- 5.14 The content of ICP 3 on Cooperation and Information Exchange is equally relevant when seeking to enhance access to inclusive insurance markets. Supervisory efforts to ensure cooperation, coordination and to facilitate information exchange are equally important and the obligations on the insurance supervisor remain (Standard 3.2. notes that the supervisor has to have the power, at its sole discretion, to exchange information with other relevant supervisors and Guidance 3.2.1 defines these "relevant supervisors" to include some of the organisations that would likely arise in the case of efforts to enhance inclusive insurance markets). Guidance 3.2.1 is, however, a list that is not exhaustive and innovations in markets may imply that other supervisors such as those responsible for agricultural cooperatives or telecommunications carriers could also be candidates to be "relevant supervisors".
- 5.15 Where multiple agencies are involved in the supervisory process, they should ensure that there is sufficient coordination, cooperation and information sharing necessary for the discharge of their duties. The roles of policymaking, regulation and supervision are often shared between a range of government ministries and agencies. When considering underserved markets, the entities that may be involved in reaching the markets can be of interest to a wider range of social and economic policy areas. It is also possible that oversight of the supervisory elements included in the ICPs may be allocated to one or more agencies and that this could differ depending on the legal form of the insurer, example between mutuals, cooperatives and other community based organisations and for other insurers. A wider range of agencies may also extend to taxation, payment systems, or telecommunications supervisors within the

jurisdiction. The process of formalizing previously informal sectors may also require coordination with a more diverse group or on more diverse topics.

- 5.16 It is important that the supervisory power to obtain and exchange information (Standard 3.1) is sufficient in scope and flexible in application subject to confidentiality, purpose and use requirements. Such flexibility may provide effective opportunities to achieve supervisory objectives in a proportionate and cost effective manner. The wider range of agencies within the jurisdiction that will need to be part of coordination and information exchange should be included with the necessary safeguards in place.
- 5.17 These arrangements should include the other authorities being able to inform the insurance supervisor of any issues in a proactive manner (Standards 26.8 and 26.9 are relevant here) while respecting confidentiality rules (Standard 26.2) and coordinating public communication (Standard 26.13).
- 5.18 It is unlikely that the microinsurance business, even when entirely successful, would lead to “serious domestic or international financial instability that could have an adverse impact on the real economy” so the intent and aims of ICP 26 regarding cross-border cooperation and coordination on crisis management are not expected to be applied materially differently.

6 A definition of microinsurance in regulation

- 6.1 When seeking to enhance inclusive insurance markets, it may be useful or necessary to have a definition of microinsurance. The definition can be related to the product or the underserved customer group. It can be qualitative or quantitative. An example of a qualitative definition that encompasses both is “insurance for low-income populations”. Qualitative definitions are usually appropriate for broader financial sector policy statements. A quantitative definition can define a monetary amount for the income level of the underserved customer group, or for the cover. Delineating the customer group in monetary terms might be of little benefit for insurers and could be costly and complex to implement. However, a quantitative definition of the cover (premium or face amount/cover) may be desirable to delineate a microinsurance business line from other insurance.
- 6.2 When a proposed regulatory measure introduces differential treatment, then a definition may be necessary to determine what precisely falls into the microinsurance category. Differential measures may relate to insurance regulation and supervision or another aspect of regulation, for example, taxation. In such cases, differentiation of measures could be between one category and another, such as “microinsurance products” and other products or “microinsurers” and insurers that do not provide “microinsurance”. It is considered optimal that:
 - 6.2.1 Definitions focus on products recognizing that, although there may be the potential for dedicated microinsurers, all insurers should be eligible to issue microinsurance products;
 - 6.2.2 Definitions that focus on microinsurers should clearly delineate microinsurance business from others and will require a definition of a risk category/product.
 - 6.2.3 Quantitative elements of definitions should be set at the highest possible level to ensure the defined product is as inclusive as possible;
 - 6.2.4 Quantitative elements should consider the need to align the resulting business profiles with the expected proportionate regulation and supervision.

6.3 A regulatory definition may inadvertently exclude target customers, providers, products and innovations, so needs to be carefully considered.

Annex 1: G20 Principles for Financial Inclusion

Innovative financial inclusion means improving access to financial services for low-income households through the safe and sound spread of new approaches. The **Principles for Innovative Financial Inclusion** endorsed by G20 leaders in Toronto (27th June 2010) aim to help create an enabling policy and regulatory environment for innovative financial inclusion. They are based on the understanding that enabling environment will critically determine the speed at which the financial services access gap will close for the more than two billion people currently excluded. These principles derive from the lessons learned from policymakers throughout the world, especially leaders from developing countries.

The principles are a reflection of the conditions conducive to spurring innovation for financial inclusion while protecting financial stability and customers. They are not a rigid set of requirements but are designed to help guide policymakers in the decision making process. They are flexible enough so they can be adapted to different country contexts.

The IAIS considers that the ICPs, when appropriately implemented, are consistent with and reinforce the G20 *Principles for Innovative Financial Inclusion* and other development work in this regard.

G20 Principles	Application to Microinsurance
1. Leadership: Cultivate a broad-based government commitment to financial inclusion to help alleviate poverty	Governments can provide leadership to ensure that policy frameworks include access to insurance. They can coordinate with other actors and drive an inclusion agenda that includes insurance for the low-income segment (see also Principle 6).
2. Diversity: Implement policy approaches that promote competition and provide market-based incentives for delivery of sustainable financial access and usage of a broad range of affordable services (savings, credit, payments and transfers, insurance) as well as a diversity of service providers.	Supervisors can enable diversity of delivery structures which respond to the living situation of the low-income segment, while ensuring that they are sustainable, efficient and promote competition in the insurance market. They can also enable the industry to sell innovative products that fit the requirements of target segments rather than pushing miniaturized versions of conventional products. Embedded products – insurance covers tagged along with other products – and group covers could be a painless and inexpensive way of quickly introducing insurance cover to large numbers.
3. Innovation: Promote technological and institutional innovation as a means to expand financial system access and usage, including by addressing infrastructure weaknesses	Recent innovations in wireless internet access, mobile telephones and applications for hand-held devices are beginning to revolutionize financial markets. Biometric identification has assisted fool-proof identity verification with the help of electronic devices. Instant updating of insurer records for receipts, payouts and service requests is now possible even from the most remote locations thanks to the devices connected on the wireless networks. These innovations have obviated the need for a large network of physical offices to provide services to customers and have lowered insurer costs significantly.
4. Protection: Encourage a comprehensive approach to consumer protection that recognizes the roles of government,	Low-income population are often not financially, or generally, literate. They are extremely vulnerable to mis-selling and fraud and not aware of the insurance concept. Supervisors therefore

providers and consumers	need to pay extra attention to consumer protection issues that may arise at different stages of the process such as advertising, collection and issue of disclosures, advice, sale, enrolment, servicing and claims.
5. Empowerment: Develop financial literacy and financial capability	Poorer communities can be much more vulnerable in the face of exposure to all kinds of risks. They are more seriously impacted by natural and man-made disasters. They are also beset by twin problems of lack of affordability and lack of awareness. Societies therefore need to invest adequate resources in educating and popularising the use of insurance as a tool for protection against risks surrounding the lives and assets of the low-income segments.
6. Cooperation: Create an institutional environment with clear lines of accountability and co-ordination within government; and also encourage partnerships and direct consultation across government, business and other stakeholders	Expansion of microinsurance involves multiple initiatives such as awareness building, funding, design of suitable products, developing requisite infrastructure and leveraging on networks and facilities of other businesses for the sake of economy and speed. Different institutions within and outside the government have abilities, skills and specialisations pertaining to different sub-domains of microinsurance. An active cooperation and partnership between such institutions is therefore desirable. In the process, there is also a need for total role-clarity and accountability. Insurance supervisors should be the key driver to push and coordinate the microinsurance agenda in the jurisdiction.
7. Knowledge: Utilize improved data to make evidence based policy, measure progress, and consider an incremental “test and learn” approach acceptable to both regulator and service provider	Providing choices of suitable products and delivery models customised to the needs of the low-income segment is crucial for ensuring successful take-off of microinsurance. It is imperative that authorities and providers avail recent and sufficient data, which is often not easily available. Investments in research and data collection, and learning of all stakeholders are important requirements.
8. Proportionality: Build a policy and regulatory framework that is proportionate with the risks and benefits involved in such innovative products and services and is based on an understanding of the gaps and barriers in existing regulation	Microinsurance is distinct from conventional insurance in many respects. Generally, the coverage is smaller, distribution is costly in terms of percentage of premiums given the high transaction cost, economic capital thresholds are lower and consumer protection needs higher in microinsurance compared to conventional insurance. Therefore, supervisors and regulators need to tailor certain supervisory requirements and actions in accordance with the nature, scale and complexity of individual insurers (i.e. apply the principle of proportionality to be suitable to microinsurance needs)
9. Framework: Consider the following in the regulatory framework, reflecting international standards, national circumstances and support for a competitive landscape: an appropriate, flexible, risk-based Anti-Money Laundering and Combating the Financing	To develop effective policy solutions for microinsurance, a thorough analysis of government policy frameworks (both regulatory and non-regulatory) are required to ascertain existence of any known barriers. Relevant question are: <ul style="list-style-type: none"> ▪ Which types of institutions are favoured or hindered by the present regulatory

<p>of Terrorism (AML/CFT) regime; conditions for the use of agents as a customer interface; a clear regulatory regime for electronically stored value</p>	<p>framework?</p> <ul style="list-style-type: none"> ▪ How adequate are the present regulations and systems in terms of safeguarding the interests of microinsurance customers? ▪ Is there sufficient flexibility within the regulatory framework to reduce regulatory requirements or otherwise apply proportionality to microinsurance providers, where appropriate? ▪ What can the regulatory framework contribute in order to motivate informal insurers to legally provide microinsurance services? ▪ What can be done to motivate formal insurers to serve low-income population? ▪ How can the cost of regulation and supervision be minimized, and at the same time high quality services be ensured? ▪ Are regulatory areas in the wider environment conducive (e.g. taxation, telecommunication)?
---	---