



# Building supervisory capacity to create inclusive insurance markets in the Pacific

Russell Leith and Ramanathan Subramanian  
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In partnership with





## Pacific Financial Inclusion Programme

The Pacific Financial Inclusion Programme (PFIP) is a joint programme of the UN Capital Development Fund (UNCDF), United Nations Development Programme (UNDP), Australian Aid and the European Union/Africa, Caribbean and Pacific Microfinance Framework Programme (EU/ACP). The mission of PFIP is to increase by 500,000 the number of low income and rural households, micro and small enterprises in Pacific Island Countries (PICs) that have on-going access to quality and affordable financial services by 2013. For more information, please visit [www.pfip.org](http://www.pfip.org)



Pacific Islands  
Working Group



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## Pacific Islands Working Group

The Pacific Islands Working Group (PIWG) was formed in 2009 at the request of the Central Banks of Fiji, Samoa, Solomon Islands, Vanuatu, Papua New Guinea, Timor-Leste and Tonga. The working group's key objectives include: - (i) to identify barriers and challenges to financial inclusion unique to the Pacific, and appropriate policy responses (ii) to work together to advance financial inclusion policy in the region, including using the working group platform to achieve domestic and regional commitments (iii) to learn from each other as members develop and implement policy solutions for financial inclusion. For more information about the PIWG's initiatives, please visit <http://www.afi-global.org>

Although the content of the report was discussed in various forums, the views expressed remain the full responsibility of the authors alone. The opinions expressed and conclusions discussed in this Report do not necessarily represent the official views of the United Nations Capital Development Fund (UNCDF), European Union, Australian Aid, the United Nations Development Programme (UNDP), and the Pacific Island Working Group and its members.

Cover Photo: TISI Sangam women participating in the workshop field visit - Nadi, Fiji.

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## Acronyms

- AFI Alliance For Financial Inclusion
- ASEAN Association of South East Asian Nations
- BPNG Bank Papua New Guinea
- CEO Chief Executive officer
- BPNG Bank of Papua New Guinea
- BCTL Central Bank of Timor-Leste
- IAIS International Association Insurance Supervisors
- ICP Insurance Core Principles
- LICL Life Insurance Corporation Limited
- MR Moris Rasik
- NITL National Insurance Timor Leste
- NFI National Financial Inclusion
- OIC Office of Insurance Commissioner (General Insurance Supervisor, PNG)
- PNG Papua New Guinea
- PFIP Pacific Financial Inclusion Programme
- PIC's Pacific Island Countries
- PIWG Pacific Island Working Group
- RBF Reserve Bank Fiji
- SAARC South Asian Association for Regional Cooperation
- SME / MSME Small Medium Enterprises
- TL Timor-Leste
- TRM Tuba Rai Metin
- UNCDF United Nations Capital Development Fund
- UNDP United Nations Development Program

## 1. Executive Summary

In the Pacific, insurance penetration is extremely low and generally only held by large companies and wealthy individuals. The largest proportion of the population; those who are most vulnerable to shocks and who suffer the most if they occur, do not have access to any insurance products – at least not yet.

If we are to overcome poverty, we will need to strengthen the ability of the most vulnerable to stand on their own feet; to take charge of their own destiny. This is what will make or break a success in development. Sustainable and real results can only be achieved when people themselves are put in a position where they can take charge of their own development process. This illustrates the need for insurance within the overall development scenario.

As donors, it is important we create opportunities and choices for people. This is where insurance plays a key role. Insurance allows individuals and families to continue to have choices and opportunities in life also when unexpected events happen. It acts as a safety net for families, which in times of a crisis provides them with the much-needed funds to re-establish their lives and livelihoods. Therefore, to achieve sustainable development it is critical to expand the access to insurance to the large segment of uninsured population.

The regulators are faced with a plethora of challenges in their respective jurisdictions when tasked with expanding the access to insurance frontier without compromising on prudential oversight and consumer protection. In order to achieve an effective balance of market development and prudentially strong providers, it is critical to develop a strong supervisory framework.

A strong supervisory framework and a certain regulatory environment would potentially attract more investors and capital leading to further development of a robust and inclusive insurance market. Keeping in mind this objective, an insurance supervisor's workshop was organized that brought together 18 supervisors from six countries in the Pacific to jointly promote the development of well regulated and inclusive insurance market based on international insurance standards.

In order to achieve the above objectives, the following activities were undertaken:

1. A questionnaire prepared by the IAIS Financial Inclusion Sub Committee, and circulated by the Secretariat was shared with the Pacific Insurance Supervisors to assess the supportiveness of each jurisdiction to enhancing inclusive insurance markets in a manner consistent with the objectives of the Insurance Core Principles (ICPs).
2. In addition, a questionnaire was prepared by Russell Leith to capture relevant information about the supervision capacities and compliance by the Pacific supervisors to ICP 9.
3. Three case studies were developed based on Russell's visit to PNG, Fiji and Timor Leste (namely; on-site inspection, supervision processes and microinsurance).
4. A manual for on-site inspection, a strategic template to be used by supervisors for planning and a regulatory toolbox were shared; the toolbox provides a guide to enable supervisors to develop pro-active, structured strategies to strengthen the supervision framework.

5. Participants worked in groups to solve three case studies, actively commented on the nature of changes required around products, distribution and licensing in the areas of inclusive insurance, participated in risk management exercises and visited a microinsurance pilot project in Nadi, Fiji.

This report presents an overview of the findings from a three country case study covering Fiji, Papua New Guinea (PNG) and Timor-Leste (TL) and the six country supervision capacity building workshop in the Pacific that led to five outputs and two concrete outcomes endorsed by the PIWG members. In addition, the report is intended to provide readers a good understanding of the following aspects:

- Insurance environment, maturity and regulator's capacity and challenges faced by the supervisors in the Pacific
- Findings from the self-assessment of the compliance to IAIS ICPs on inclusive insurance and supervision by the supervisors in the Pacific
- Using case studies to highlight the responses and actions taken by Pacific supervisors in the areas of supervision policies, on-site inspection, and microinsurance
- Summary of gaps and capacities of the supervisors, obstacles that prevent the supervisors in the Pacific from achieving international standards
- Recommended actions for supervisors in the Pacific to improve compliance to IAIS ICPs on inclusive insurance and supervision and specific actions to facilitate supervisors to meet the international standards

Some of the critical findings from the three country case study and the workshop are as follows --

- The supervisors would need to develop a strategic plan on how to incorporate the role of the government into the development of the inclusive insurance markets
- Pacific supervisors need to develop a better understanding of proportionality in order to develop a "forward focus" and concentrate on the important aspects of risk management
- Supervisors need to develop the capability of staff in risk management, develop and implement processes for more effective monitoring of brokers, agents and intermediaries and implement new standards in governance for all insurance companies
- Most insurers in the Pacific are very conservative with the nature of risks they are prepared to underwrite due to lack of market information, limited risk sharing facilities available and inadequate reinsurance options to consider
- The untapped SME/MSME segment in the Pacific presents a huge scope for insuring the human and physical assets across the value chain
- Scope for government to effectively transfer their fiscal risk for managing losses arising out of natural disasters by opting for layered approach to disaster risk financing where insurance could be used as one of the instruments

Some of the key implications and action plans endorsed by the PIWG are:

- To develop a model regulations / guidelines to facilitate expansion of inclusive insurance and integrate it with the country level National Financial Inclusion (NFI) strategy

- To build regional capacity amongst supervisors in risk based supervision, compliance to IAIS ICPs in a proportionate manner, and developing modules for reinsurance

## 2. Introduction

The Pacific region is one of the least insured regions in the world, with insurance penetration extremely low with the percentage of GDP as a premium sitting at 3.6% and close to 1-2% in Fiji and PNG respectively, compared to 9% in OECD countries, 11.42 % in United States and 12.35 % in United Kingdom<sup>1</sup>. Those who are most vulnerable to shocks and who suffer the most when they occur make up the largest proportion of the population and do not have access to affordable or appropriate insurance products. To address the gap, the Pacific Financial Inclusion Programme (PFIP), a regional programme based in Suva, Fiji is focusing on expanding the outreach of insurance services to prospective uninsured clients living in low income segments.

For the insurance market to develop in the small island nations, it is critical to first develop the supervisor's capacity to promote the development of well regulated and inclusive insurance<sup>2</sup> market based on international insurance standards. Better prudential oversight and regulatory certainty in turn would potentially attract more investors and capital, leading to further development of a robust insurance market. Competition among insurance companies and intermediaries would also lead to increased insurance penetration to the uninsured low income segment through the development of innovative insurance products tailored to local needs and that use alternate distribution channels.

PFIP works with the central banks in the region directly and through Alliance for Financial Inclusion's (AFI) PIWG to build capacity, share international best practices in the areas of financial inclusion policy and provide technical assistance for reviewing existing regulation in consumer protection, mobile money, inclusive insurance and other areas. Based on country action plans that were developed as a result of the insurance regulator's workshop organized by PFIP in June 2012, the PIWG members identified specific areas for capacity building when they met in Honiara in February 2013.

All PIWG members expressed the need for developing their supervisory capacity in the area of off-site supervision and on-site inspection with specific focus on market conduct aspects. Moreover, a definite need was expressed to identify the gaps and document the existing capacities in responding to market situations based on regional and international best practices. Finally, the supervisors also wanted to identify appropriate regulatory frameworks for development of inclusive insurance markets. PIWG and AFI requested PFIP to lead this project of building supervisory capacity in the areas of inclusive insurance and off-site and on-site supervision.

The priorities of the project were to deliver in the following areas –

- To address the gaps in compliance to inclusive insurance core principles as laid out by IAIS
- To identify appropriate regulatory frameworks for development of inclusive insurance in the Pacific
- To enhance the supervisors capacity to carry out off-site analysis of insurance companies' and intermediaries' audited financial reports using relevant ratios for life and general insurance that would serve as early warning indicators for supervisors to take pro-active steps

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<sup>1</sup> OECD Stat Extracts <http://stats.oecd.org/Index.aspx?QueryId=25437>

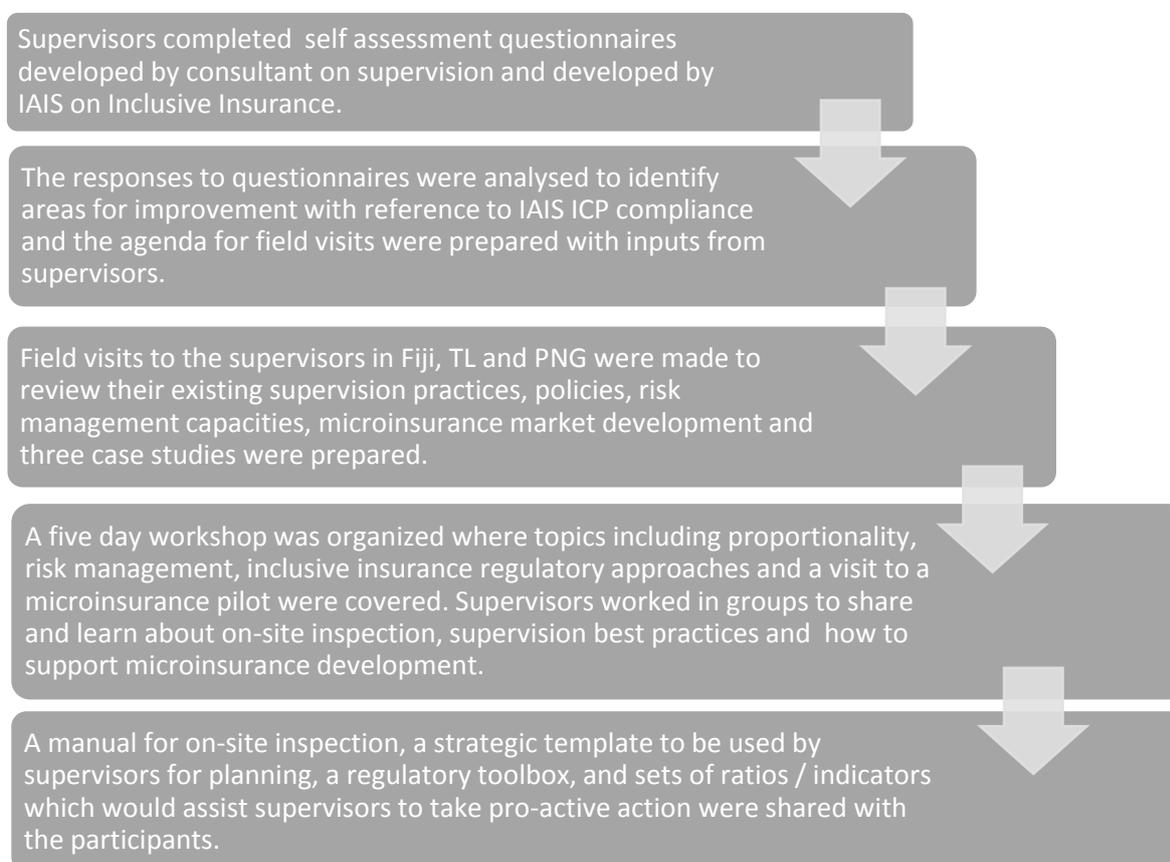
<sup>2</sup> For the purpose of this project and report, the term inclusive insurance refers to the IAIS definition -- *a contributing element of overall financial inclusion, characterized by affordable, sustainable, convenient and responsible delivery by licensed and supervised insurers and intermediaries of all parts of the insurance product and service*

- To develop an ideal model of a manual that incorporates critical functions for carrying out the inspection of insurance companies and intermediaries, in particular re-insurance brokers
- To lay out the key components of a strategic planning document to assist supervisors to plan for key performance initiatives based on their existing resources, systems and processes
- To develop a regulatory toolbox with actions for improving the quality of the regulatory response based on regional and international best practices
- To identify the key action areas and scope for improvement and technical assistance for the six participating Pacific Island Countries (PICs)

In May 2013, PFIP contracted Russell Leith ‘the consultant’ to deliver the above priorities. In addition, Arup Chatterjee – Senior Financial Sector Specialist at ADB was also consulted from the design stage through the course of the project and he was the lead trainer during the five day workshop held in Nadi, Fiji. The consultant worked closely with the technical expert – Ramanathan Subramanian in the PFIP team for technical guidance, project implementation, and facilitation of the workshop in August.

The scope of the project was limited to six countries in the Pacific which has seven regulators -- one life and one general insurance regulator in PNG, and regulators in Fiji, Samoa, Solomon Islands, TL and Vanuatu. In order to achieve the above priorities, the sequence of activities detailed in Figure 1 was carried out.

**Figure 1: Project steps taken**



The following sections capture information collected from the Pacific supervisors through the questionnaire, the case studies developed from the three country visits and lessons learnt and shared at the workshop. The report begins with the insurance environment, maturity and regulator's capacity in the Pacific, it is then followed by the methods adopted to collect information for this project, followed by findings from self-assessment questionnaires and three case studies, and finally the report ends with an assessment of the gaps and capabilities of the supervisors in the Pacific and recommended actions for supervisors to improve compliance to IAIS ICPs on inclusive insurance, supervision and specific actions to facilitate supervisors to meet the international standards.



Photo: Participants during the workshop, Nadi, Fiji

### 3. Insurance Environment and Challenges in the Pacific

There are significant challenges in the Pacific that impact on the ability to regulate and also to operate a functional insurance market. These challenges include; physical isolation, small populations, market access and economies of scale, limited governance structures, varied natural resources endowment, inadequate infrastructure and costly transportation, the impact and variability of climate change, natural hazard risks, and economic shocks which impact market expansion. The total population of the PIC's is 9.3 million, of which 7.01 million live in PNG. Of the remaining 2.3 million population, 73% live in Fiji, Solomon Islands (SOI) and Vanuatu.

In some Pacific countries it is estimated that less than 10% of the population have access to basic financial services. UNDP estimates that around 6.5 million people or 80% of people living in the Pacific islands do not have access to formal and informal financial services in the form of savings, credit, insurance, remittances, transfers, pensions and investments<sup>3</sup>.

As a result of these challenges, there are some countries which are more advanced in the development of their supervision processes benefiting from greater experience. PNG and Fiji are the two most populated islands in the Pacific and have the largest number of insurance companies. Both islands have well established insurance regulators (*refer table 1*), in PNG there are two insurance regulators one for general insurance companies (an independent body that reports to the Ministry of Finance) and one for life insurance based in the Bank of Papua New Guinea (BPNG).

**Table 1: Insurance in the Pacific Islands**

Country	What type of entities does the regulator supervise (and how many)?	What is the frequency of the supervision (onsite/offsite)?	Does the regulator publish a report for market information?
<b>Fiji (Reserve Bank of Fiji)</b>	Life (2), general (7), brokers and agents (Credit unions, co-operatives, self-insurance, informal schemes are not licensed)	Mandatory every two years and case by case basis / Quarterly and annually, as and when needed.	RBF Quarterly Reviews, Insurance Annual Report, RBF Annual Report, Key disclosure statements on the website
<b>BPNG -- (Central Bank –Life Insurance)</b>	Licensed both life (3) insurance companies and brokers <sup>4</sup>	Annually / Quarterly analysis with industry meetings every six months	Data is published in the Quarterly Economic Bulletin, annual reports not published yet, but intend to do after completion of data warehouse project
<b>OIC (General – PNG)</b>	General insurers (11), brokers (retail, loss adjusters, reinsurance brokers)	Starting Q3 2013 / Quarterly	Currently doesn't publish but plan to do so in line with other regulators in the pacific

<sup>3</sup> PFIP Project Document, Phase II, June 2013

<sup>4</sup> There is no specific requirement in the Act to supervise brokers/intermediaries/agents. BPNG is intending proposing to issue standard

<b>Samoa (Central Bank)</b>	Life insurance, general insurance (2) and brokers	Not yet started / Quarterly	Quarterly bulletin produced by the research department
<b>Solomon Islands (Central Bank)</b>	General insurance companies (2), Life insurance, brokers and agents	Based on risk assessments / Quarterly	Integrated in the Central Bank's Annual report, no separate report on insurance sector published
<b>Timor-Leste (Central Bank)</b>	Life insurance, General insurance (2), including agents	Starting Q3 2013 / Quarterly	Plans to publish annual report in the future
<b>Vanuatu (Central Bank)</b>	General insurance (4), Life insurance, Brokers, insurance managers and agents	Every 2 years / Quarterly and annually	Quarterly reports but separate annual report on insurance not published

The other PIC's have a limited number of insurance companies and their markets are relatively immature with very low penetration levels. Though TL has close to 1.2 million people which is larger than Fiji, the insurance penetration is negligible given there is only one insurer which established its business three years ago offering general insurance.

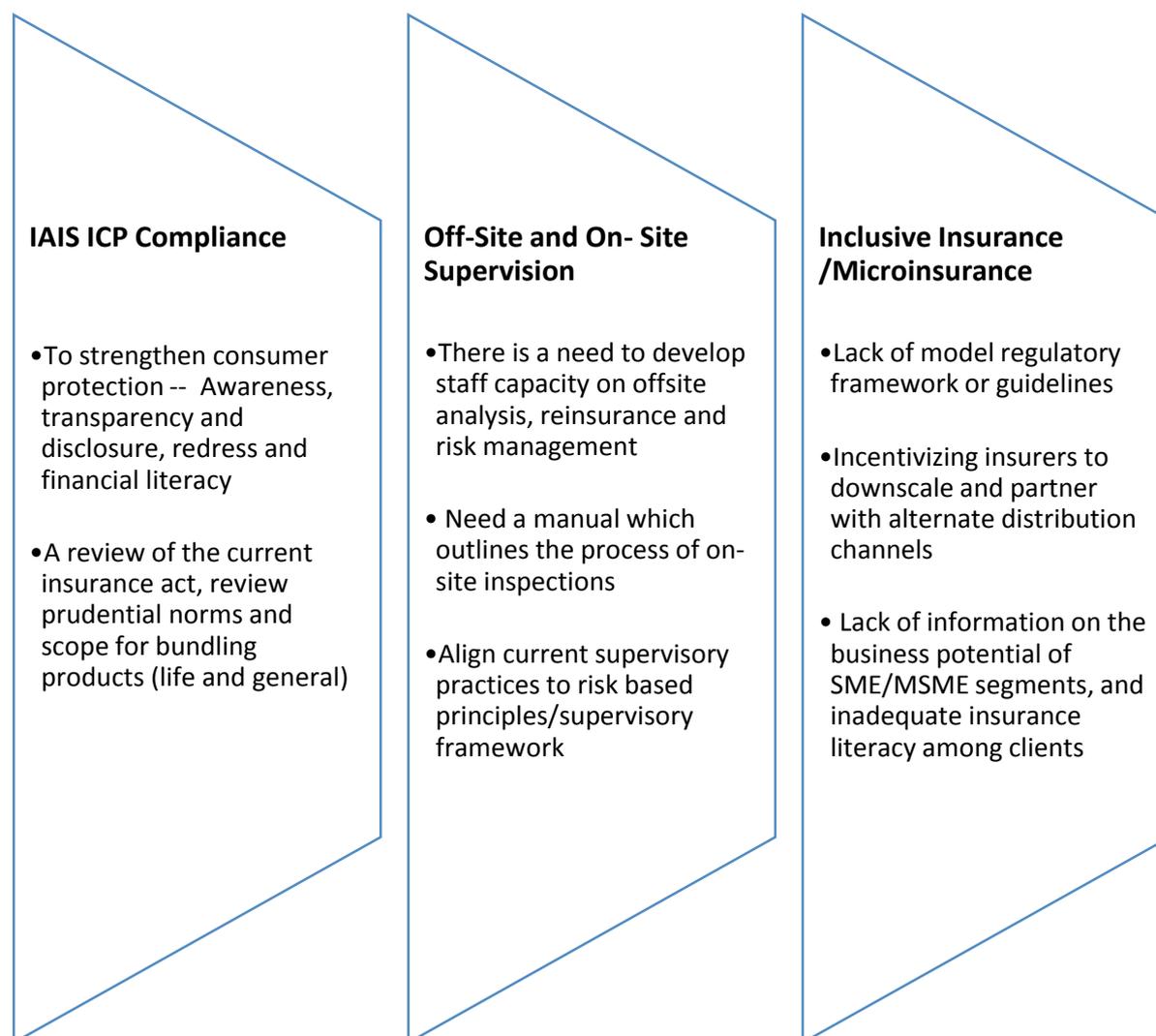
Another contributing factor for the low insurance penetration is the history of natural disasters that can impact both human and physical assets. This limits the willingness of most insurers in the Pacific to underwrite risks and therefore they tend to adopt a conservative approach due to lack of market information, limited risk sharing facilities available and inadequate reinsurance options. In addition, there are relatively low levels of capital invested in the sector highlighting the lack of business interest and absence of robust capital markets for insurance companies to invest in the Pacific. As a result, the risks covered in the region are not significant compared to other markets in the world. For more information on the implications of risk in the Pacific region please refer Appendix 1.

### **Maturity and Regulator's Capacity in the Pacific**

The maturity and the size of the insurance market in a country have a direct correlation to the capacity of insurance regulator. This is relevant to the Pacific region. We found limited capacity in the PIC's insurance regulators offices, where there are a small number of insurance companies. PNG and Fiji have mature markets, so they have a sound regulatory environment with an Insurance Law supported by functional regulations. The regulators in these two countries are carrying out regular supervision of the market.

The smaller PIC's have a small number of staff in the regulator's office (for example -- Samoa 2, Solomon Islands 3, Vanuatu 3) to carry out the same role as the larger regulators offices (*refer figure 2*). To compensate for limited capacity in the smaller PIC's, staff from Papua New Guinea and or Fiji will often go to assist a smaller PIC regulators to complete an onsite inspection of an insurance company. All regulators whether they monitor a large or small market have the same procedures to complete and require the same tools to monitor the market.

**Figure 2: Challenges faced by Regulators in the Pacific**



Insurance regulators with small offices are constantly challenged to meet the requirements of their role. Using resources and skills from other regulators in the region is a practical way of effectively monitoring the insurance market. The regulators should be encouraged to work together on more aspects of developing a regulatory framework that is consistent across the PIC's as the risks for each PIC insurance market are relatively similar. The development of Memorandum of Understanding (MOUs) is critical for sharing best practices, information on insurance companies that operate in multiple jurisdictions and provide support to the less resourced jurisdictions by means of attachments/secondments in the areas of off-site and on-site supervision.

In addition to capacity issues, PNG also presents a unique challenge, as there are two regulators for a small insurance market. BPNG has been responsible for the supervision of life insurance since life insurance started in PNG in 2003. The General Insurance regulator (OIC) has existed since 1975. This can be very challenging for the industry given the insurance law allows composite companies (i.e. a company is both a life and a general company) and these companies are regulated by the two regulators who have distinctly different approaches and ideology. Both regulators acknowledged the opportunities that PFIP offered them through workshops to discuss, share and explore any difference of opinions. More such platforms for dialogue are critical to establishing a conducive and enabling environment for the industry to function in PNG.

All insurance companies in the PIC's report at least on a quarterly basis to the regulator. The challenge for the PIC regulators is to use this information more efficiently to not only effectively monitor the risk of the insurance market but to promote and develop the insurance market. Currently, only Fiji produces a comprehensive annual report on the insurance market. The two main reasons for the inability of other Pacific countries to publish an annual report are the capability of their systems and the time taken for staff to collect and compile the data for analysis.

The Pacific regulators can overcome the above challenge by developing and implementing more modern databases that will collect and analyze information from the insurance companies efficiently and would consolidate all reports and provide the industry with an aggregated analysis. As a result of publically sharing information on the state of development of the insurance market and through key disclosure agreements that promote greater transparency of insurance companies, more insurers can better assess the opportunities and benefit in making more informed decisions with reference to underwriting uninsured segments and also open the market to fresh investment.

## 4. Approach to obtain information and complete analysis

This project captured information using three main instruments –

1. IAIS Financial Inclusion Sub Committee designed questionnaire on Inclusive Insurance
2. Questionnaire on supervision covering ICP 9 – Supervision
3. Case studies developed based on field visits to Fiji, PNG and TL

### 1. IAIS Financial Inclusion Sub Committee designed questionnaire on Inclusive Insurance

PFIP with support from ADB and Access to Insurance Initiative were able to provide the Pacific supervisors access to a questionnaire developed by the Financial Inclusion Subcommittee of the IAIS on inclusive insurance. The questionnaire was based on the Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets, adopted in October 2012. The self-assessment exercise does not measure the observance with the ICPs per se but assesses the supportiveness of supervisors to the cause of enhancing inclusive insurance markets. With reference to inclusive insurance, IAIS recognises that supervisors need to adjust certain supervisory requirements and actions in accordance with the nature, scale and complexity of the risks posed by individual insurers and insurance intermediaries by tailoring regulations to the risk characteristics of the product or intermediation channel.

According to the Financial Inclusion Subcommittee of the IAIS, the reason for developing the inclusion assessment tool was threefold:

- To establish a baseline
- To generate impetus for regulatory change
- To support the implementation and promotion of the G20 principles for innovative financial inclusion (GPFI) into practice

The supervisors who participated were to be provided with individual reports intended to improve their understanding and level of supportiveness with regard to enhancing financial inclusion. In addition, it can also be used to enhance their supervisory practices and legislative frameworks.

### 2. Questionnaire on Supervision covering ICP 9

The IAIS ICPs constitute a globally accepted framework and standard for the supervision of the insurance sector. They prescribe the essential elements that must be present in the supervisory regime. There are 26 ICP's, which apply to insurance supervision 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. A questionnaire was prepared to capture relevant information about the supervision capacities and compliance of the Pacific supervisors.

ICP 9 expects the supervisor to:

- Take a risk-based approach to supervision and use off-site monitoring and on-site inspections to examine the business of each insurer

- Evaluate the condition of the insurer and determine a risk profile of the insurer
- Evaluate the quality and effectiveness of the insurer's corporate governance and its compliance with relevant legislation and supervisory requirements
- Obtain the necessary information to conduct effective supervision of insurers and evaluate the insurance market

IAIS with 190 insurance supervisors as members, recognises that the implementation of the ICPs and standards relevant to supervision may vary across jurisdictions depending on the supervisory powers, capability and structure within a jurisdiction. With this in mind our project was interested to see what variations existed in the way the supervisors in the Pacific carried out their supervision function. In order to understand the variations it was critical to assess the Pacific supervisors with reference to their compliance to ICP 9 which could be done in one of the following three ways as recommended by IAIS: -

- Self-assessments, on either the full set of ICPs or against specific ICPs, performed by insurance supervisors themselves, sometimes with the assistance of other experts. Self-assessments may be followed by peer review and analysis
- Reviews conducted by third parties
- Reviews conducted in the context of the IMF and World Bank Financial Sector Assessment Program (FSAP)

The project chose the first two approaches where the seven supervisors across six countries in the Pacific region completed a self-assessment questionnaire on how they rated themselves against the requirements of ICP 9. The areas in the questionnaire covered –

- Supervision using risk principles
- Reporting, methodologies
- Governance, strategy and communication with the insurance industry

The analyses of responses to the questionnaires were completed before embarking on the field visits to meet the insurance supervisors in Fiji, PNG and TL. The findings and summary of the responses from the IAIS Inclusive Insurance and ICP 9 questionnaires are set out in section 5.

### **3. Case Studies developed based on field visits to Fiji, PNG and TL**

The main purpose of these field visits was to validate the responses to the questionnaire from each of the three supervisors in Fiji, PNG and TL by observing procedures, reviewing documentation and processes and interviewing staff from the supervisors and insurance companies. During the field visits, the following aspects were reviewed –

- The country's insurance law, insurance regulations
- Onsite and offsite manuals, inspection reports and challenges faced specifically in market conduct aspects, also to identify key parameters to measure industry performance and guidelines for on-site inspection
- Existing staff capacities and ability to deliver on international standards

- Held workshops with staff to discuss processes, policy and training needs

These observations and analysis from the field visits helped to establish the level of compliance with ICP 9. The ICP 9 self-assessment assisted in identifying gaps and were used to further scope out areas for specific training for the supervisor's staff during the field visits. Moreover, the field visits offered an opportunity to understand how well positioned each of the three supervisors were, to establish sound frameworks and an enabling environment necessary for the development of inclusive insurance.

Based on the above set of activities, three case studies on the following areas were compiled;

- The robustness of existing supervision processes,
- The review of existing on-site inspection processes, and
- How the supervisor responded to support the microinsurance pilot initiatives

The case study approach facilitated to establish the nature and pace of insurance market development, to identify the gaps in implementation of international standards, the challenges faced by supervisors and how they addressed those challenges. For instance –

1. In **Fiji** the case study focused on the complete supervision process. The challenge for the supervisor was – *'How does a supervisor that is already well structured with excellent manuals for processes in place make transition to risk based supervision?'*
2. In **PNG**, the case study focused on onsite inspection and the challenge for the supervisor was -- *'How to complete an effective onsite inspection of a life company in a small market where the supervisor is very familiar with the company's operation?'*
3. In **Timor-Leste**, the case study focused on Microinsurance and the challenge for the supervisor was *'How it should respond to an organization that had started a microinsurance operation when it was not a licensed insurance company?'*

During the field visits, solutions to specific challenges were discussed and concurrence was obtained on the information that was going to be shared through the case studies at the workshop.

## 5. Findings from Self-Assessments and Case Studies

Based on the three methods laid out for collecting data from supervisors, this section highlights the key findings in the areas of inclusive insurance and supervision. First, this section begins by sharing findings from the inclusive insurance questionnaire. Second, the findings from ICP 9 questionnaire are shared. Finally, the section ends by sharing insights from the three case studies focusing on supervision processes in Fiji, on-site inspection processes in PNG and Microinsurance development in TL.

### 1. Findings from questionnaire on Inclusive Insurance

For the purpose of this questionnaire and report, the IAIS definition for inclusive insurance was used;

*Inclusive insurance markets refer to a contributing element of overall financial inclusion, characterised by affordable, sustainable, convenient and responsible delivery by licensed and supervised insurers and intermediaries of all parts of the insurance product and service.*

All supervisors responded to the self-assessment questionnaire on inclusive insurance. The responses highlighted the limited experience that Pacific supervisors have in regulating and supervising inclusive insurance. To ensure anonymity of responses, the following table summarizes the key responses to the significant questions in the inclusive insurance questionnaire.

**Table 2: Summary of responses to IAIS Inclusive Insurance Self-Assessment Questionnaire**

Area of focus	Responses
<b>Inclusive insurance market</b>	<ul style="list-style-type: none"> <li>• Products focused on inclusive insurance market segments will be permitted provided they are within the supervised market</li> <li>• Majority of supervisors wanted a minimum level of capital established</li> <li>• Pilot schemes will be encouraged</li> </ul>
<b>Legislation</b>	<ul style="list-style-type: none"> <li>• All supervisors advised that they will be responsible for the supervision of all insurance arrangements</li> <li>• No supervisor had developed any specific legislation for inclusive insurance</li> <li>• All types of legal, licensed and supervised entities are permitted to offer insurance to the inclusive insurance market segments</li> <li>• In some jurisdictions, supervisors are faced with the challenge of deciding how to monitor semi-formal and informal providers</li> </ul>

<b>Inclusive insurance products</b>	<ul style="list-style-type: none"> <li>• The supervisors have not completed research on products being developed in the market place</li> <li>• There are limited products available for inclusive insurance in the Pacific currently</li> <li>• The supervisors are not familiar on how to review products</li> <li>• The legislations do not allow composite life and general insurance products</li> <li>• The offering of insurance products are limited to the citizens of each country</li> </ul>
<b>Intermediaries</b>	<ul style="list-style-type: none"> <li>• There are few intermediaries set up in the Pacific region</li> <li>• The supervisors will be flexible on what type of intermediaries are permitted to deliver inclusive insurance products</li> </ul>
<b>Proportionality and consumer protection</b>	<ul style="list-style-type: none"> <li>• The supervisors have not considered the proportionality aspect in any market</li> <li>• The supervisors indicated their awareness of how insurers communicate with consumers but did not have any policies in relation to consumer protection</li> </ul>
<b>Supporting inclusive insurance</b>	<ul style="list-style-type: none"> <li>• All supervisors indicated government commitment to inclusive insurance</li> <li>• The supervisors have been mandated to be active in the inclusive insurance markets</li> <li>• There is a definite need for each supervisor to have more information and data on the inclusive insurance sector</li> </ul>
<b>Market information</b>	<ul style="list-style-type: none"> <li>• The supervisors indicated that they have a good knowledge of their country's market</li> <li>• There are a limited number of formal insurers operating in the Pacific region</li> </ul>

## 2. Findings from ICP 9 questionnaire

For the purpose of this questionnaire and report, the IAIS definition for ICP 9 was used;

*The supervisor has an integrated, risk-based system of supervision that uses both off- site monitoring and onsite inspections to examine the business of each insurer, evaluate its condition, the quality and effectiveness of its Board and Senior Management and compliance with legislation and requirements. The supervisor obtains the necessary supervisory information to conduct effective supervision of insurers and evaluate the insurance market*

ICP 9 sets out basic criteria that supervisors have to put in place. The Pacific supervisors were assessed against compliance to key aspects of ICP 9 which included:

- I. How the supervisor collects information
- II. What the supervisor does with this information and
- III. How the supervisor develops its priorities for the supervision process

The ICP 9 self-assessments were completed by the seven supervisors in six countries. Table 3 highlights the areas of ICP 9 that are important for the Pacific supervisors based on their development and the maturity of the insurance industry in the region. The table shows the number of supervisors that comply with the specific requirements of ICP 9.

**Table 3: Number of supervisors that comply with ICP 9’s requirements**

ICP Question	Number of supervisors complying with question						
	1	2	3	4	5	6	7
We have and use the basic forms and ratios for offsite analysis as well as regulatory treatment							
We have processes on how to carry out off-site analysis of insurer’s / insurance intermediaries’ performance							
Processes in place on how to identify prudential and solvency issues and set-up triggers to inform/ warn supervisors to initiate proactive action							
We have developed of a tool-box of regulatory actions (regulatory ladder) based on lessons learnt locally and from international practice.							
We have processes on how to carry out targeted inspections with focus on monitoring the role of insurance, re-insurance brokers, other market conduct and corporate governance issues							
We have policy and processes on how to develop a data base for insurance statistics to share the state of development of the market with market participants on a half yearly basis							
We have taken steps towards managing the supervision process by using risk management principles							
Have you outsourced any supervision processes to specialists?							
Do you have a documented framework for supervisory review and reporting that takes into account the nature, scale and complexity of insurers?							
Do you develop a supervisory plan for each insurance company that sets priorities and determines the appropriate depth and level of off-site monitoring and on-site inspection activity?							
In your review of each company do you make an assessment of the potential impact that the insurer’s failure would have on its policyholders, the insurance market, and the financial markets as a whole?							
What processes and procedures do you have in place to collect and store reported data in an electronic format?							

The results in the above table highlight how much is required by each of the supervisors in the Pacific region to fully meet the key requirements of ICP 9. All supervisors are monitoring their market but the effectiveness of this monitoring is questionable based on their responses to the ICP 9 self-assessment. It will not be possible to meet all of the ICP 9 requirements in the immediate future. Therefore, it is recommended that the supervisors decide on priority actions to develop in order to improve their processes and their compliance with ICP 9.

### 3. Findings from the Case Studies

The following three case studies begin with a brief background about the country context followed by the critical questions raised in the case study with the responses obtained from the workshop participants who discussed solutions in groups, and finally ends with a review of the supervisor’s actions. For more information on the lessons learnt and shared among workshop participants and

how to integrate these lessons with the short term, medium term and long term strategic plan, please refer Appendix 2.

### **Fiji -- Robustness of existing supervision processes**

The Reserve Bank of Fiji (RBF) has well documented manuals for onsite and offsite supervision processes. Moreover, the supervision staff understand the requirements of the processes and complete all reviews, both onsite and offsite, in a very methodical and accurate manner. All members of the team work in a collective manner. The team has a specialized function that is responsible for entering all of the insurance company information in a well-managed database. This team also completes the analysis of the information. The analyzed information is used to develop quarterly profile reports for each company. RBF produces an excellent annual report on the insurance industry.

The insurance market in Fiji comprises seven general and two life insurance companies. The domestic insurance industry recorded the highest claims payment to date as general insurance industry reported an underwriting loss of FJD\$2.8 million<sup>5</sup>, which contributed to an industry net loss after tax of FJD \$6.1 million. Insurance penetration as a % of GDP increased marginally from 3.3% to 3.5%. The general insurance industry was resilient and continued to meet the minimum solvency requirements as the gross premiums grew by 16.9% annually while life insurance premiums grew by 17.4%. Net policy and claims payment increased by 33.9% to FJD \$141.8 million due to local natural disaster events while life insurance industry recorded a 7% increase of claims payments touching FJD \$67.2 million. Last year, also marked the first year when insurers in Fiji publicly disclosed their statements leading to greater transparency and better comparison of insurer performance across the industry.

There are a relatively large number of general insurance companies for the size of the general insurance market in Fiji. Life insurance still needs to develop its presence in the market. One microinsurance product targeting individuals, and two other pilots focusing on reaching groups through grass root and faith based organizations are in force. In addition, there are several credit union, co-operatives who are not registered or licensed by RBF but offer insurance products.

**Table 4: Fiji – Summary of participants’ responses to questions on supervision processes**

Critical questions posed in the case study	Workshop Group Participants Responses
What is the regulator’s role to bring “informal insurance schemes” into the formal framework?	Establish formal contact with informal insurance providers and register them, collect relevant data (no of policy holders, no of products, claims trend), give them a 5-10 years transition option to be licensed or operate as agents and set the threshold in the Act (size of funds)
How does the supervisor become proficient in the risk based approach?	Maintain regular communication with insurance companies, develop in-house well trained staff in risk management and develop risk profile reports for the insurance sector
How can risk based principles be used for onsite examinations?	Assists in identification of risk areas e.g. -- targeted onsite inspection, focus on institutions which pose biggest risk systematically and target key risk areas
How can the supervisor enhance	Establish a formulated corporate governance framework, lay out

<sup>5</sup> Figures as reported in the Insurance Annual Report, Reserve Bank of Fiji, 2012

corporate governance for all insurance companies?	policies and strategies for managing supervision and ensure companies comply with the framework during onsite review
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### Review of RBF's Actions

The RBF annual report on the insurance industry demonstrates how well the supervisor understands the insurance market in Fiji. Sector information is well collated in a structured database. Risk profiles can be developed without too much additional effort using the detailed quarterly profile for each insurance company which the supervisor already maintains. The focus for onsite inspections is based on the analysis of information from the offsite processes. The team works collaboratively to complete this analysis, reviewing data and setting the priority areas for the onsite inspection. This is effectively the starting process for supervision based on using principles of risk management.

The supervisor communicates on a regular formal basis with the insurance companies. Feedback is obtained from the CEO's of the insurance company's on a number of issues including the review of the insurance act. This communication is now being extended to stakeholders of the 'informal insurance' sector to develop a structured way forward. These actions demonstrate a transparent approach which keeps the supervisor informed and better placed to make decisions for the future of the insurance sector.

### Papua New Guinea – Review the On-Site Inspection Processes

The PNG insurance market comprises 11 licensed insurers, of which 5 write general business only and 4 are composites, writing mainly life with some general business. There is also a reinsurance company and a monopoly compulsory third party motor insurer. The general insurers are predominately subsidiaries or branches of foreign owned insurance companies, including QBE, AIG, Tower and Mitsui Sumitomo Insurance Company Ltd.

The composite insurers, whom predominately write life business, are mainly PNG owned. The life insurance industry in PNG is relatively undeveloped; focusing on short term investment products and prior to December 2000 there was no governing legislation. The Life Insurance Act was introduced in 2000 with life companies regulated by BPNG. The general insurance industry in PNG is controlled and monitored by the Office of Insurance Commissioner (OIC) in accordance with the Insurance Act 1995.

It appears that the vast majority of life insurance purchased is placed on an admitted basis, not least because the majority of the accounts are group business, with relatively low cover limits and on a term basis of normally one year. The PNG insurance market remains very small. There is a widespread lack of knowledge about life insurance; most people in PNG rely heavily on the traditional 'Wantok' system. This system is based on mutual help amongst their own kin and clans folk who speak the same indigenous language. In the Pidgin language, 'Wantok' means 'One Talk' or people who speak the same language.

Urbanised Papua New Guinea nationals who are paid a regular wage or salary might be expected to purchase life insurance, but in fact most of their disposable income is paid into the 'Wantok' system. There is said to be growing demand for group life insurance for which employers pay the premiums. Most of the larger employers, including many expatriate companies, arrange group insurance for their staff. The distribution of this class of business is mainly through brokers.

Disability insurance for any policy period less than 104 weeks has always been treated as general insurance business and the licence to write it must be obtained from the OIC. It is understood, however, that annually renewable group personal accident and disability contracts are issued by

the general insurance market which may include coverage for death by any cause as well as disability. These practices have given rise to differences of opinion between the OIC and BPNG about interpretation of the general insurance and life insurance legislation.

This case study is focused on the life insurance supervisor -- BPNG. The regulator has well-structured processes in place and it has regularly carried out onsite inspections of each of the life companies in the last three years.

**Table 5: PNG – Summary of participants’ responses to questions on on-site inspection**

Critical questions posed in the case study	Workshop Group Participants Responses
How do we develop objectives for an onsite examination that will improve our focus on risk?	<ul style="list-style-type: none"> <li>• To understand the current business environment of the inspected company (Co.), review the progress on the implementation/ compliance with the new corporate governance policy</li> <li>• Discuss the current business plan and strategies going forward for the Co. with the Board and senior management,</li> <li>• Review their organization structure, changes in business, IT (Database), expansion plan, investment etc.</li> </ul>
How can we start to use risk based principles during the examination process?	<ul style="list-style-type: none"> <li>• Knowledge of business is critical to understand the insurance Co.</li> <li>• Carry out risk profiling, identify inherent risks, assess risk using scorecards based on the eight risk categories</li> <li>• Prepare risk matrix and assign scaling/ratings, allocate resources accordingly</li> </ul>
What is the company doing to manage its risk and meet the new governance standards?	<ul style="list-style-type: none"> <li>• Review and evaluate the effectiveness of the current governance structure – assess the new structure of the board, appointment of specialized positions e.g. internal audit, new Board member appointments.</li> <li>• Prioritize issues/concerns/risks, formulate questions, discuss and present during onsite</li> </ul>
How should the supervisor prepare for the onsite examination process?	<ul style="list-style-type: none"> <li>• Prepare scoping memo, set objective, resources, roles and responsibilities, set timelines, send letter to the institution, and give the Co. advance notice, request documents in the letter, lay out the scope of the onsite, and prepare the draft agenda.</li> <li>• Once the documents are received, allocate staff accordingly for review, prepare modules/section notes on each policy or document received, discuss with examination team.</li> <li>• Prepare questionnaire template, brief for the opening session, templates for the file inspection, minutes/file notes and draft in-house agenda for the supervisor to conduct debrief sessions during onsite examination.</li> </ul>

### Review of BPNG’s Actions

The regulator has sound processes developed for an effective onsite inspection and existing templates to gather relevant information during inspection based on the offsite analysis. The onsite inspection was well planned and executed. Each team member knew what they were responsible for and how they would go about each process using preplanned questions and templates to record information.

The final meeting helped the company realize the importance of changing its board to meet the new governance standards and to develop a more focused strategic plan.

The question to be asked ‘*If a risk focus was used for the onsite inspection, would additional information have been obtained?*’ The onsite inspection gave the supervisor a reasonable comfort level on how well placed the company was in some operational areas. Potentially a more focused risk approach would highlight areas that the company needs to manage in the future such as the achievement of strategic goals and the development of new governance standards.

### Timor-Leste – How a regulator supported the pilot of a microinsurance initiative

The insurance market in Timor Leste (TL) is in a nascent state of development. The country’s first insurance company National Insurance Timor Leste (NITL) received its operating license in 2010. The insurance market is regulated by the Banco Central de Timor Leste (BCTL). NITL is licensed as a general insurance company. The concept of insurance is not very well understood by the majority of the population in TL. The country has compulsory third party motor vehicle insurance, however a low percentage of cars in the country are covered for third party. Other jurisdictions include the cost of third party insurance in the annual car registration fee as a means of ensuring that cars are covered for third party risks. This may be an option for TL to consider in the future as a means to help improve the level of protection for people in cars and trucks.

The insurance act was enacted in 2005, since then the insurance supervision staff have developed instructions to support the regulation and monitoring of the insurance law. The instructions are referred to in other jurisdictions as ‘*the regulation*’. BCTL has continued to monitor the performance of the insurance companies against the drafted instructions to ensure they are appropriate for the insurance sector in TL before being enacted. This is a prudent approach to take given the limited nature of and growth of insurance in the country.

Microinsurance started in 2009 when Moris Rasik (MR) a microfinance organization piloted a credit life product to help to reduce the risk of its loans. Though MR is not a licensed insurance company in TL, it was underwriting credit life insurance policies and retained the premium and the risks associated with the policy. In 2011 with assistance from the UNDP - INFUSE project a more formalized microinsurance scheme was developed with NITL underwriting the credit life policy.

**Table 6: Timor Leste – Summary of participants’ responses to questions on microinsurance**

Critical questions posed in the case study	Workshop Group Participants Responses
BCTL knew that inclusive insurance was potentially good for customers but it was not covered by current legislation – so how will the microinsurance product be regulated?	<ul style="list-style-type: none"> <li>• Improve the knowledge of microinsurance with assistance from experts on best practices, case studies from other countries and by liaising with other Pacific regulators that supervise microinsurance products</li> <li>• Review current legislation to permit BCTL to regulate an organization interested in offering microinsurance products</li> <li>• Develop and enact clear laws and regulations in accordance with internationally accepted standards that encourage microinsurance expansion</li> <li>• Set up a working group with staff from BCTL, the two MFI’s (MR and TRM) and the insurer (NITL) to determine the best structure to pilot microinsurance</li> </ul>
How and who is best placed to provide this microinsurance product in TL?	<ul style="list-style-type: none"> <li>• A licensed insurer in partnership with MFIs in TL</li> <li>• Promote a national dialogue on microinsurance between policy makers, insurers (operators), intermediaries and clients</li> <li>• Microinsurance product can be offered by a licensed insurer provided the term of the coverage is 1 year.</li> </ul>
How will this product provide the benefits needed by the customers at a	<ul style="list-style-type: none"> <li>• Outstanding loans should be paid upon death of the borrower and \$500 to the beneficiary for meeting funeral</li> </ul>

cost that is affordable to the consumer?	expenses <ul style="list-style-type: none"> <li>• Spouse death covered, benefits of up to \$250 paid to the surviving spouse</li> <li>• Asset is protected, no mortgage sales</li> </ul>
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**Review of BCTL’s actions**

BCTL took a proactive approach to develop inclusive insurance in TL after it discovered the products were being offered. The approach was very practical and worked well because all stakeholders were involved in the process. The supervisor has the authority to allow pilots schemes which helped to overcome the situation that life insurance product cannot be provided by a general insurance company.

The supervisor engaged independent experts to overcome the limited capacity that each stakeholder (MFIs and Licensed Insurer) had. This is a practice that many supervisors are reluctant to use but it was very effective during this particular process.

There were multiple donor initiatives being promoted in TL and the supervisor took the initiative to ensure that all of the donor activities took place in a coordinated manner. Regular meetings of all stakeholders coordinated by BCTL were an activity that helped to develop the inclusive insurance schemes in place now.



Photo: Participants during the workshop, Nadi, Fiji

## 6. Assessment of Gaps and Capabilities and Recommended Priority Actions

Based on the findings from the questionnaire on ICP 9, IAIS Inclusive Insurance questionnaire and the three country case studies, it is clear there is a huge scope for improvement amongst Pacific supervisors in the areas of supervision and inclusive insurance. This section will begin by recommending steps to assist the Pacific supervisors for compliance with IAIS ICP 9. Subsequently, a brief list of actions in the area of inclusive insurance is laid out that would facilitate the Pacific supervisors to develop the market. Finally, the current gaps in capacities of Pacific supervisors to meet international standards and specific actions to achieve those standards are laid out.

### Recommended Actions to Improve Compliance with ICP 9 for Pacific Supervisors

Based on the responses in Table 3 in the previous section, it is clear how much more effort is required by each of the supervisors in the Pacific region to meet the key requirements of ICP 9. It will not be possible to meet all of the ICP 9 requirements in the immediate future. Therefore, it is recommended that the supervisors decide on priority actions to develop in order to improve their processes and their compliance with ICP 9. Figure 3 highlights the recommended priority actions, as complying with ICP's is an ongoing improvement process for each supervisor.

**Figure 3: Recommended Actions for Pacific Supervisors**



### Recommended Steps for Pacific Supervisors in the Areas of Inclusive Insurance

Each of the supervisors are well aware of the situation in their own country pertaining to the development of inclusive insurance. Each market for insurance in the Pacific is relatively small compared to world standards. This makes it more challenging to set up inclusive insurance on a

sustainable basis. It is important that each country is aware of what is happening in other Pacific countries and where possible a regional framework for policies and processes are set up. In summary the responses from the questionnaire indicate that: -

- Each supervisor will need to develop a plan on how to incorporate the role of the government into the development of the inclusive insurance markets
- To develop a better understanding of proportionality and decide how to implement it to support the development of inclusive insurance
- To facilitate partnerships between Government and private sector for offering subsidized products to the poor whose prices are actuarially determined
- Supervisors need to spend more time with insurance companies to better understand their products
- To evaluate the risks associated with alternate channels for distribution and identify appropriate licensing requirements for products and channels
- To train alternate channels for distribution and create better client awareness of inclusive insurance products
- Supervisors require market information on the scope of untapped SME/MSME segment in the Pacific, as the segment presents a huge scope for insuring the human and physical assets across the value chain
- Supervisors should take a lead role in developing consumer protection

### **Recommended Actions to Achieve International Standards Based on Assessment of Gaps and Capabilities**

*'The more harmonized regional insurance regulation can be, the higher the chance insurers can go for product and policy standardization, and hence allowing more globalization of the insurance value chain. This will bring cost saving to all participants, particularly policy-holders in the end.'* -- **Manuel Bauer / Board of Management Allianz S.E**

*'For newly emerging markets in the start-up phase of insurance, we look for a broadly stable regulatory framework together with markets that show signs of capital market development'* -- **Christopher Townsend / President Manulife Asia Pacific**

The quotations above were made at the 2013 International Association Insurance Supervisors Conference by speakers representing the insurance industry. The content of these quotes is consistent with the aims of international best practice in insurance supervision and are considered important for Pacific supervisors to take on board. So, what is stopping Pacific supervisors from achieving the aspirational target of international best standards?

Traditionally each country has endeavored to establish its own identity and its own regulations which has the potential to isolate the country from other countries. In today's global market, supervisors will be better off sharing their best practice and lessons on how they conform with international

standards by working together with supervisors from other countries. There is a great opportunity from this project for the supervisors from the Pacific region to collaborate on more issues and look at the opportunities of sharing resources and developing a model regulations or guidelines to facilitate expansion of inclusive insurance and integrate it with the country level National Financial Inclusion strategy.

The development and achievement of a few important international standards will help improve the environment for insurance in the Pacific. The current gaps in capability of Pacific supervisors to meet these standards are not unusual in developing markets. However, with a focused approach Pacific supervisors can aspire to meet these standards over the next five years.

**Table 7: Summary of gaps and capability in the Pacific region**

International Standard	Current obstacle to achieving standard	Development actions to achieve standard
<b>All supervision processes and policies will be based on risk management principles</b>	<ul style="list-style-type: none"> <li>• Limited skills and knowledge of risk management within the supervisors teams</li> <li>• Insufficient data and information on the insurance companies</li> <li>• The insurance companies are not managing their operations using a risk based approach</li> </ul>	<ul style="list-style-type: none"> <li>• Enhanced training opportunities for supervisor’s staff in the Pacific region on risk management</li> <li>• Develop process manuals using a risk based approach;</li> <li>• Require insurance companies to develop and implement risk management plans</li> </ul>
<b>Information is shared with other regulatory bodies</b>	<ul style="list-style-type: none"> <li>• There is a limited ability to share information within the region</li> </ul>	Develop MOU’s to encourage supervisors in the Pacific – <ul style="list-style-type: none"> <li>• to share information about insurance companies operating in multiple jurisdiction,</li> <li>• for sharing best practices and</li> <li>• provide support to the less resourced jurisdictions by means of attachments/ secondments</li> </ul>
<b>A regulatory framework is in place to develop inclusive insurance</b>	<ul style="list-style-type: none"> <li>• The regulatory environments are not principle based to enable the development of inclusive insurance within existing frameworks</li> </ul>	<ul style="list-style-type: none"> <li>• Review regulations in - line with others in the Pacific region to develop model regulations or guidelines and integrate with National Financial Inclusion Strategies</li> </ul>
<b>Industry data and information is readily shared by the supervisor with the market</b>	<ul style="list-style-type: none"> <li>• Supervisors do not have a consistent approach to what data is to be collected</li> <li>• The systems in each country have limited reporting capability</li> </ul>	<ul style="list-style-type: none"> <li>• Review information collected in more developed markets and seek to replicate the information for the Pacific region with all Pacific countries collecting the same data</li> <li>• Research the options to develop or purchase a data base and management information system that will meet the requirements of all Pacific region supervisors</li> </ul>

## 7. Conclusion

As the International Association of Insurance Supervisors continues its call to members around the world to consider a global approach, it may be time for the Pacific supervisors to consider the option to develop model regulations or guidelines to facilitate expansion of inclusive insurance and its integration with the National Financial Inclusion strategies.

Each region in the world has started to establish regional groups to coordinate the development of capacity, policy and regulations. In the East Asia region the ASEAN group and in South Asia region the SAARC group covers all of the supervisors in their respective regions. Similarly the Association of Financial Supervisors of Pacific Countries which is well established and provides opportunities for its members to share best practices should address some of the larger supervisory issues related to the traditional insurance sector such as:

- To build regional capacity in risk based supervision, compliance to IAIS ICPs in a proportionate manner, and develop modules for reinsurance for supervisors
- To review existing insurance regulation and laws to ensure relevant norms are adequately covered and identify approaches for formalizing informal providers
- To share best practices within member countries by means of attachments/secondments in the areas of off-site and on-site supervision
- To develop and implement an easy to use, database for collecting and analysing insurers' financial and operational performance and in order to take pro-active action

In the area of inclusive insurance, it is critical for the supervisors to take note of the following key findings and collaborate with key donor organizations like PFIP, ADB and with the AFI PIWG to:

- Develop a strategic plan on how to incorporate the role of the government into the development of the inclusive insurance markets
- Develop a better understanding of proportionality and decide how to implement it to support the development of inclusive insurance
- Facilitate partnership between Government and private sector for offering subsidized products to the poor whose prices are actuarially determined
- Unleash the market potential of untapped SME/MSME segment in the Pacific, as it presents a huge scope for insuring the human and physical assets across the value chain
- Scope for government to effectively transfer their fiscal risk for managing losses arising out of natural disasters by opting for layered approach to disaster risk financing where insurance could be used as one of the instruments
- Develop alternate channels for distribution and create better client awareness of inclusive insurance products
- Allow supervisors to take a lead role in developing consumer protection

## 8. Appendices

### Appendix 1 – Implications of Risk in the Pacific

In the background section, it is highlighted how susceptible the Pacific region is to natural disasters on a regular basis. With climate change, the potential for more disasters is at a much higher level.

Insurers in the Pacific have traditionally been too conservative with the risks they are prepared to cover. Regrettably for clients in the Pacific region, the insurance companies work on a return based on risk and given many insurers in the Pacific are branches of international companies, their head offices will determine risks to underwrite based on better returns and countries with lesser risk exposure in the Pacific region. Additional cover through reinsurance is also very restricted to cover risks in the Pacific region. The insurance supervisors can play an important role in helping to develop better cover for clients in the Pacific region by working with the Government in the following areas:

- To help strengthen disaster risk assessment – for instance, by improving the availability and quality of data on hazards, exposures, vulnerabilities and losses
- To foster the development of disaster risk financing markets – and in particular micro-insurance
- To improve the resilience of the financial sector to disaster events – for instance through strong business continuity planning and developing guarantee funds
- To enhance technical and institutional capacities and coordination among governmental agencies; and
- To promote awareness of disasters and the need for financial protection

The international community recognizes that risk transfer and sharing should be a central part of disaster risk management efforts. However, the institutional and regulatory requirements for a functioning insurance and reinsurance market are demanding and are not satisfactory in the Pacific as yet. Although the insurance sector is very active in many countries in the region, insurance penetration under commercial or government insurance schemes is low, and catastrophe insurance is non-existent.

While reinsurance has been utilized extensively in the mature insurance markets, many insurers in developing markets including the Pacific historically refrained from buying catastrophe reinsurance, preferring instead to maximize retained premium. This position needs to change and each supervisor has the opportunity to develop policies that will ensure insurers have more protective backup by means of reinsurance for catastrophic risks. Supervisors may also decide to involve the government as the government would also benefit from effective transfer of their fiscal risk for managing losses arising out of natural disasters by opting for layered approach to disaster risk financing. This could be feasible wherever insurance could be used as one of the instruments and this would develop more confidence in the local insurance companies.

## Appendix 2 – How to Integrate Lessons Learnt from the Workshop into a Strategic Plan

During the presentations and discussions at the Nadi workshop there were a number of important lessons that the presenters shared with the workshop participants and or the workshop participants shared with each other. The long list of lessons developed highlights how effective it is to have a group of people from different countries sharing their experience.

To guide the additional development of capacity within the Pacific region these lessons can be used as important parts of a strategic plan. The following table links the main lessons learnt to improvement strategies that will be helpful to develop the supervisor’s staff capacities, enhance the supervisors standing in the financial sector and improve the environment for inclusive insurance market to expand.

<b>SHORT TERM</b>	
<b>Lessons learnt</b>	<b>Practical Strategies</b>
<ul style="list-style-type: none"> <li>• Don’t regulate aspects of the market that you cannot enforce</li> </ul>	Develop a detailed information and database on all insurance providers in the country
<ul style="list-style-type: none"> <li>• Don’t do an on-site for sake of keeping to a schedule, prioritize the risks that you want to oversee during on-site, give sufficient time for providers to prepare for on-site, scoring to be done to understand the level of risks</li> <li>• Based on assessed risks the strength of intervention also increases, various business risks are off-set by the quality of risk mitigation processes to arrive at net risks and assess the capital and earning resources (cash flow based on profits can vary but strong capitalization is key) to arrive at composite risk assessment</li> <li>• Risk based supervision is a structured process aimed at identifying the most critical risks that face each company and through a focused review by the supervisor to assess the company’s management of those risks and the company’s financial vulnerability to potential adverse experience</li> </ul>	Develop supervision processes based on risk based principles
<ul style="list-style-type: none"> <li>• Keep your eyes and your ears close to the ground to see what is going on in the market place, it is hard to know what is going on if you remain in the ‘ivory tower’ or supervise from your office only</li> </ul>	Spend more time in the offices of the insurance companies during the year and arrange more insurance industry meetings between the supervisor and insurance company CEO’s and senior staff
<ul style="list-style-type: none"> <li>• Remember not to base decisions on the future of an insurance company from the quarterly or half yearly performance of insurers, insurance is a long term business</li> </ul>	Develop a new offsite manual that defines the off-site analysis processes
<b>MEDIUM TERM</b>	
<ul style="list-style-type: none"> <li>• Don’t set up systems that you cannot manage</li> </ul>	Develop a database and management information systems to meet the market’s needs

<ul style="list-style-type: none"> <li>Corporate governance is critical for managing the risk of insurance in your market</li> </ul>	Develop corporate governance regulations that are aligned with international best practice
<ul style="list-style-type: none"> <li>How active are the directors who serve in the boards of insurance companies? How are the boards functioning? Do board members hold independent views; is the board dormant or active? What are the policies that need to be approved by board? Does the board manage risk, investment and other decisions?</li> </ul>	Incorporate the monitoring of governance practices into the new onsite supervision manual that will be developed based on risk based principles
<ul style="list-style-type: none"> <li>As supervisors, don't prepare the investment policy for insurance companies, only comment in case they have overlooked some aspects – whether asset and liability are matching as mentioned by law? What type of investment securities can insurers invest?</li> </ul>	Promote the development of investment capability in conjunction with other regulators
<ul style="list-style-type: none"> <li>To circumvent systemic failures set up and have a regional database and a MOU across all Pacific jurisdictions</li> </ul>	Develop a system and a policy on how to share information on insurance companies with other Pacific countries
<b>LONG TERM</b>	
<ul style="list-style-type: none"> <li>Processes need to be transparent so supervised institutions understand the basis on which they will be assessed, and an increase in risk levels must be backed up with increased capital</li> </ul>	Develop the ability for all stakeholders to communicate 'on -line' with the insurance supervisor
<ul style="list-style-type: none"> <li>Insurance is a comprehensive business and we need to take into account; risk, rates, terms and conditions</li> </ul>	Develop a comprehensive risk pooling facility at a regional level to provide insurers the incentive of moving beyond their comfort zones and also to expand the coverage of inclusive insurance in the Pacific
<ul style="list-style-type: none"> <li>Relevant Inclusive insurance products for Pacific -- Focus on property, health and liability, long-term and short-term liabilities should be separately accounted for,</li> <li>Same insurer underwriting both life and general insurance products for short term duration would have good business potential and then hive off as life and general insurance once the term of products enter long-term duration</li> </ul>	Develop an environment that encourages the development of new and composite inclusive insurance products

### Appendix 3 – List of Workshop Participants and Others Who Supported the Project

<b>Insurance Regulators Workshop August 4- 10 Novotel, Nadi</b>		
<b>Workshop Participants</b>	<b>Full Name</b>	<b>Organisation</b>
1	Caroline Kanoko	Central Bank of Solomon Islands
2	Trevor Manemahaga	Central Bank of Solomon Islands
3	Charles Rubaha	Central Bank of Solomon Islands
4	Lanna Ieremia	Central Bank of Samoa
5	Tapusina Asalele	Central Bank of Samoa
6	Marinette Abbil	Reserve Bank of Vanuatu
7	Simon Tiwok	Reserve Bank of Vanuatu
8	Raho Samuel	Office of Insurance Commission
9	Ludwig Repo	Office of Insurance Commission
10	Peter Samuel	Bank of Papua New Guinea
11	Elizabeth Gima	Bank of Papua New Guinea
12	Neumi Usumaki	Reserve Bank of Fiji
13	Shanil Totaram	Reserve Bank of Fiji
14	Arieta Vakasoqo	Reserve Bank of Fiji
15	Ricardo Ribeiro	Central Bank of Timor Leste
16	Abdullah Sagan	Central Bank of Timor Leste
17	Rafael Borges	Central Bank of Timor Leste
18	Nur Alkatiri	Deputy Governor, Central Bank of Timor Leste

<b>Others in Insurance Supervision Teams in Central Banks who provided support to the study</b>		
1	Vilimaina Dakai	Reserve Bank of Fiji
2	Savaira W. Manoa	Reserve Bank of Fiji
3	Christina Rokoua	Reserve Bank of Fiji
4	Vereimi Levula	Reserve Bank of Fiji
5	Noel Vari	Reserve Bank of Vanuatu
6	Philip Arubilake	Reserve Bank of Vanuatu
7	Gilbert Wongsin	Central Bank of Samoa