

# Making insurance markets work for the poor: microinsurance policy, regulation and supervision **Colombia case study**

Presentation at FSI conference

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# 1. Colombian context

- Population: 46m (57% urban)
- Poverty: 19% < \$2 pd and 8% < \$1 pd
- Significant informal economy: 50% of GDP, 60% of total workers
- Significant cooperative network
  - 3.7m members (8% of population)
  - Modernised by 1988 legislation
- Early 1990s:
  - Financial liberalisation increased competition
  - Private banks and insurers forced to find new markets in lower-income segments
- 1998: Financial crisis
  - Privatisation
  - Pressure on cooperatives, insurance supervision moved to FS, no special dispensation

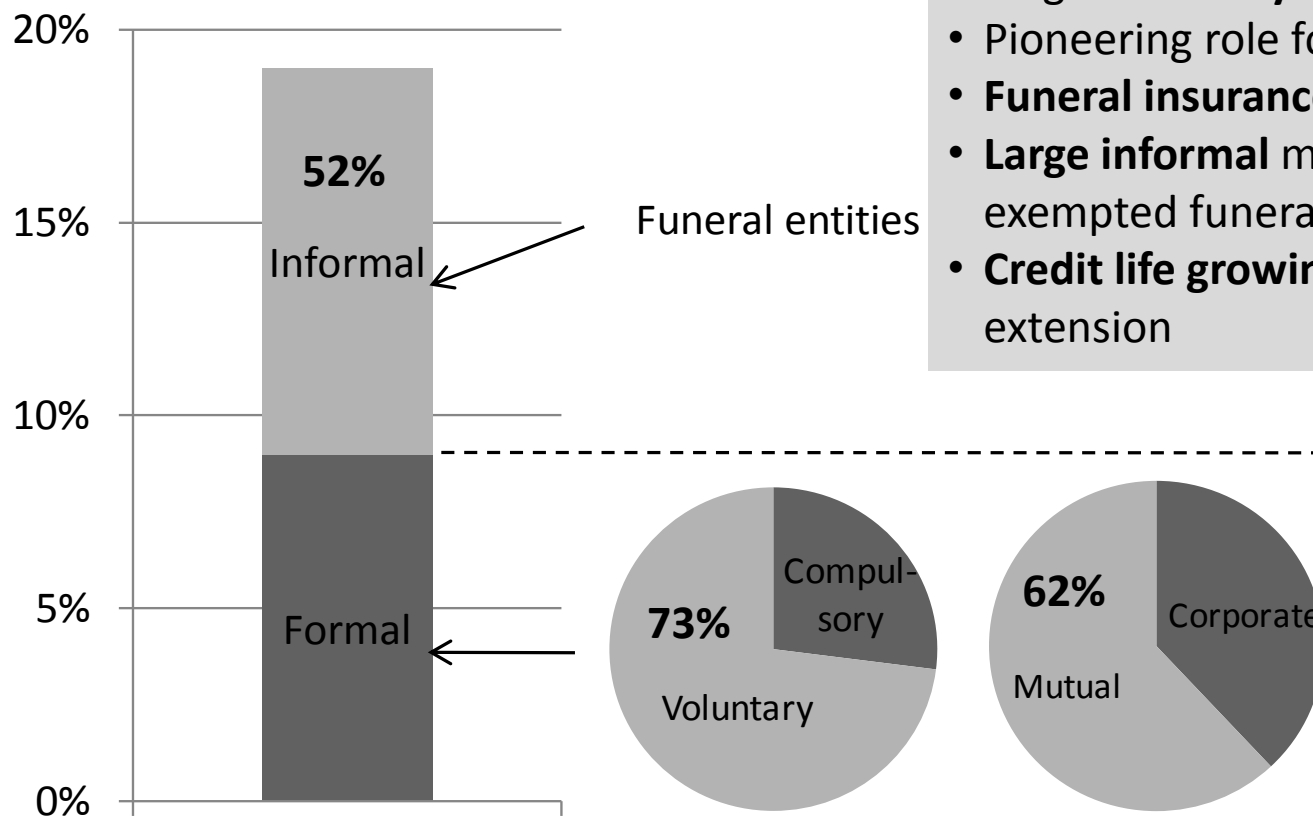
# 1. Colombian context

- Significant micro credit growth: growth in credit life insurance (and beyond)
- 2006: Opportunity Banking programme
  - Commits government to financial inclusion
  - Covers all aspects of financial sector but mainly focused on credit and payment system
  - Facilitating approach: No compulsion or quotas
  - Correspondent banking support insurance distribution (premium collection only)

# 2. Microinsurance market

## Key features:

- **Low overall insurance penetration** by LatAm standards (2.4% of GDP)
- **Non-life dominant** (1.7% of GDP) but life growing strongly
- Large **voluntary** MI market
- Pioneering role for **mutual** insurers
- **Funeral insurance** most popular product
- **Large informal** market (52%): mostly exempted funeral entities
- **Credit life growing** on back of credit extension



Total microinsurance market (% of adults)

# 3. Policy, regulation & supervision landscape

- Insurance regulation part of **Fundamental Law of the Financial System**
- Low overall **regulatory burden**
- No dedicated MI regulation, **no tiering**
- **No strict demarcation**: composite insurers allowed
- **Flexible market conduct** approach
  - new distribution channels accommodated
  - supervision of agents delegated to insurers
  - No commission caps
- **Cooperative insurers allowed**
  - Same dispensation as other insurers
  - May sell to non-members
  - Ability for new entrants may be limited
- **Gaps in insurance definition**: Significant proportion of microinsurance provided by unregulated (exempted) funeral entities

# 4. Key findings

- Market led growth. Strong role played by industry association
  - Recent economic history favoured private sector development and market extension
  - Relatively high income levels supports development
- Low regulatory burden, limited requirement for special dispensation
- Good insurance value proposition:
  - Reasonable claims ratios on compulsory insurance
  - Move beyond compulsion to enhanced value proposition
  - Innovations on product and distribution channels
- Explicit policy support (Infrastructure development)
- Market conduct have to be monitored to avoid knee-jerk
- MI definition may allow for alignment of support

Thank you!