

Making insurance markets work for the poor:
Policy, regulation and supervision
**The role and regulation of member-based
insurers**



Overview

1. The mutual value proposition
2. Spectrum of member-based insurers
3. Risk
4. Observed regulatory responses
5. Issues to consider for policy, regulation and supervision

1. The mutual value proposition

- Natural form of societal risk management
 - Engender trust
 - Acceptability of insurance product
- Significant role in current MI markets
 - Colombia: 62% of formal MI
 - Philippines: 32% (60% including informal)
 - South Africa (funeral): 10% (65% including informal)
- Much of value constrained to the informal sector

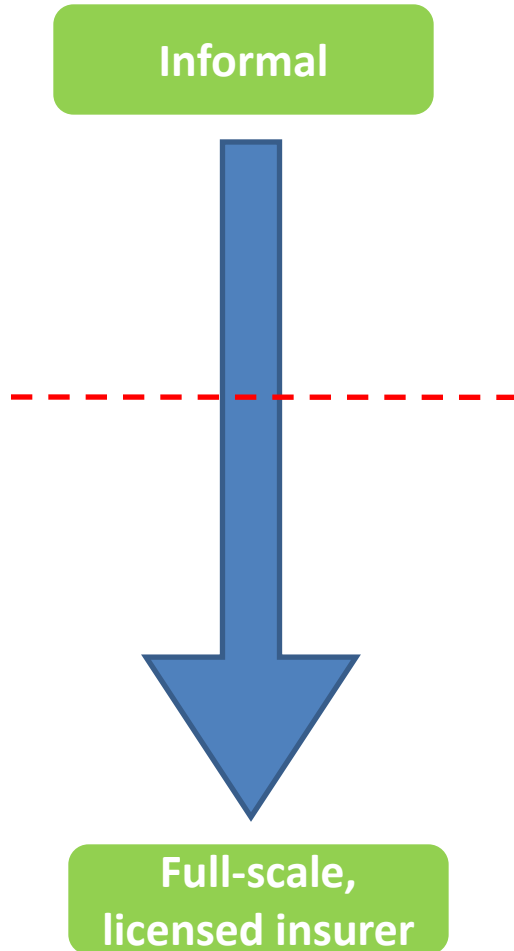
→ Insurance decision

→ MI evolution

→ Country data

2. Spectrum of member-based insurers

All member-based insurers mutuals are not equal



- Large number of small units ➡ smaller number of large units
- Social objective ➡ Financial objective
- Strong member relationships ➡ weak member relationships
- Member goodwill ➡ limited member goodwill
- Active member management ➡ separation of ownership and management
- Benefits variable and limited to funds ➡ benefits fixed and liability may extend beyond funds
- Common-bond based governance ➡ contract-based governance
- Limited to members ➡ may sell to public

3. Risk

- **Prudential**

- moving from informal risk pooling to guaranteed benefits
- moving from simply MI-type products to more complex products requiring actuarial treatment

- **Market conduct**

- Collective decision-making and distribution by fellow members reduce market conduct risk
- May weakens as size increases

- **Governance/Institutional**

- Surpluses accruing to members reduce fiduciary risk to some extent
- Sufficiency of the governing arrangements of the mutual to sustain its risk management activities

4. Observed regulatory responses

1. Ignore

2. Exclude

3. Exempt (special tier)

- Size: lower prudential risk (SA, Netherlands, Germany)
- Members only: exempt if serve members only (e.g. Fiji)
- Benefit guarantee: exempt non-guaranteed (SA)
- In-kind vs cash benefits: e.g. health or funeral services
- Product-based: Philippines MBAs
- Social beneficial nature
- Jurisdiction: e.g. health or agricultural cooperatives

4. Full regulation

5. Policy issues to consider

1. The priority of financial inclusion as policy objective

2. What is the current role of member-based insurers in your country?

- Sufficient information required on scope and size of activities (underwriting and intermediation)
- The role of member-based organisations in facilitating financial inclusion
- Insurance operations vs other objectives served by mutuals

2. What is the risk profile of member-based insurance activities

- Which types of member-based insurance activities do you have and what are the risk implications?
- Evidence of consumer abuse – by whom and of what nature?

3. How does this fit with existing regulation?

- Is it recognised as an institutional form and how extensively provided for (common law or regulation)?
- Insurance regulation – can member-based insurers be accommodated in existing insurance laws and regulations?
- Who is responsible for regulating member-based organisations and how to ensure coordinated approach?
- Decide on regulatory approach to manage member-based insurance – exemption, tiering, recognition as formal insurers
- Formalisation: does regulatory framework facilitate graduation path?

5. Issues to consider for supervision and enforcement

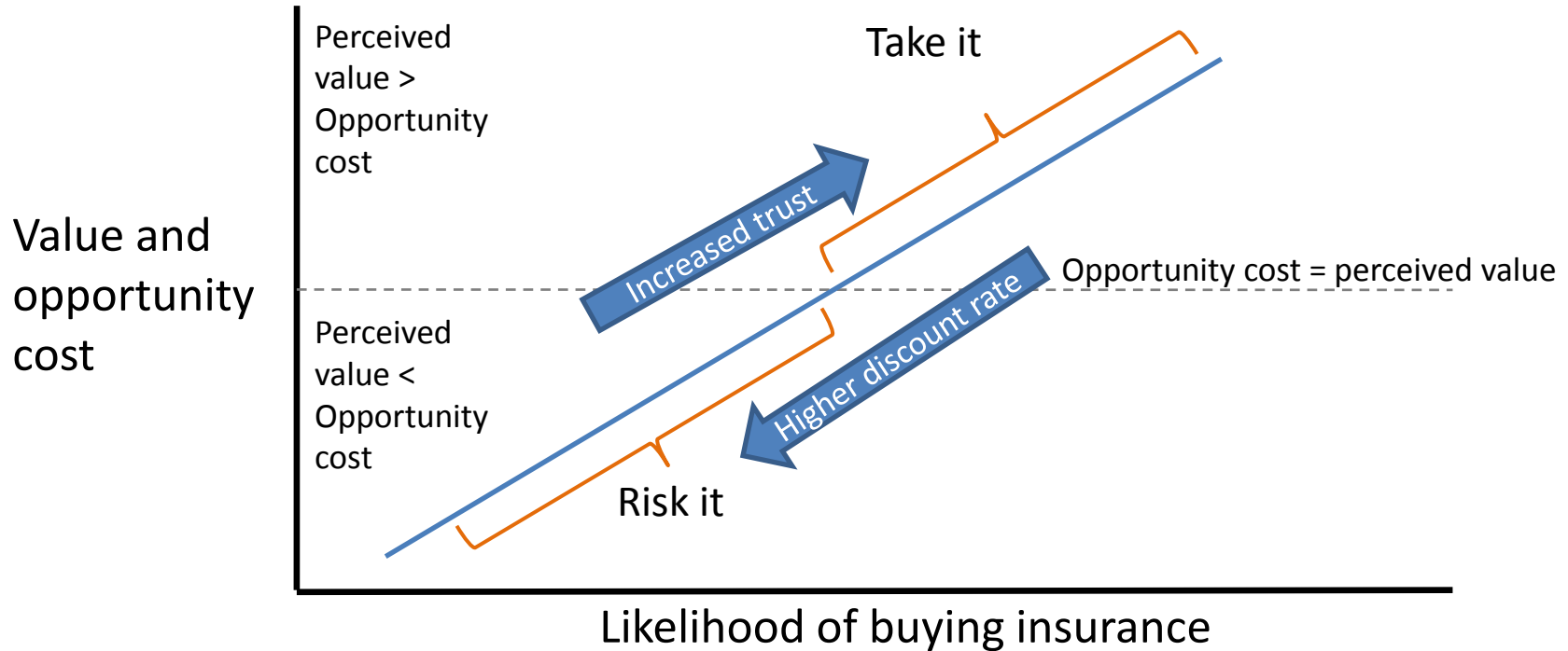
- Capacity to supervise and comply
- Strengthening governance

Thank you!



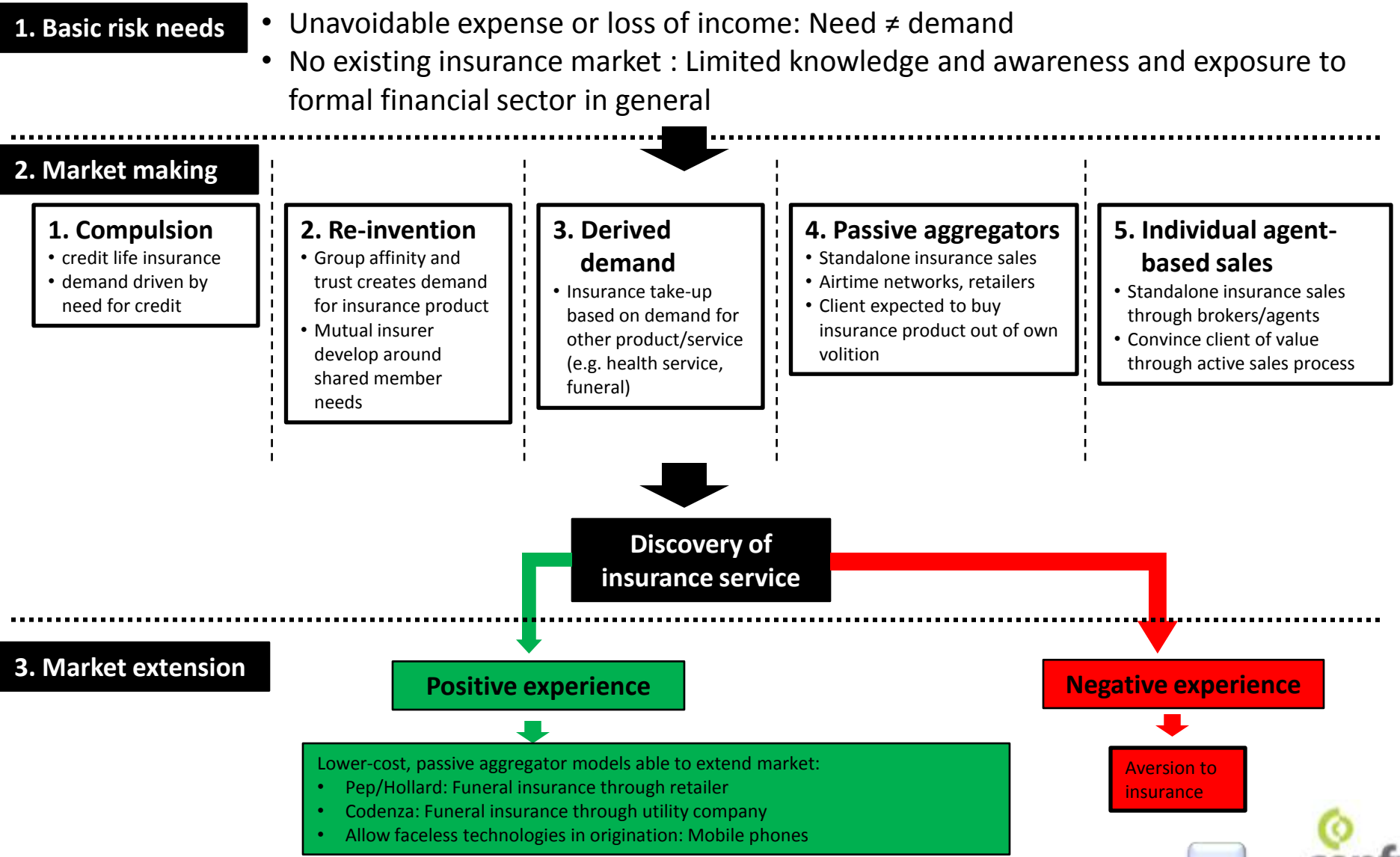
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i. The microinsurance decision



- **Perceived opportunity cost**
 - Less disposable income means higher opportunity cost
- **Perceived value**
 - Discount rate
 - Trust: Likelihood of successful claim
 - Probability of risk event occurring

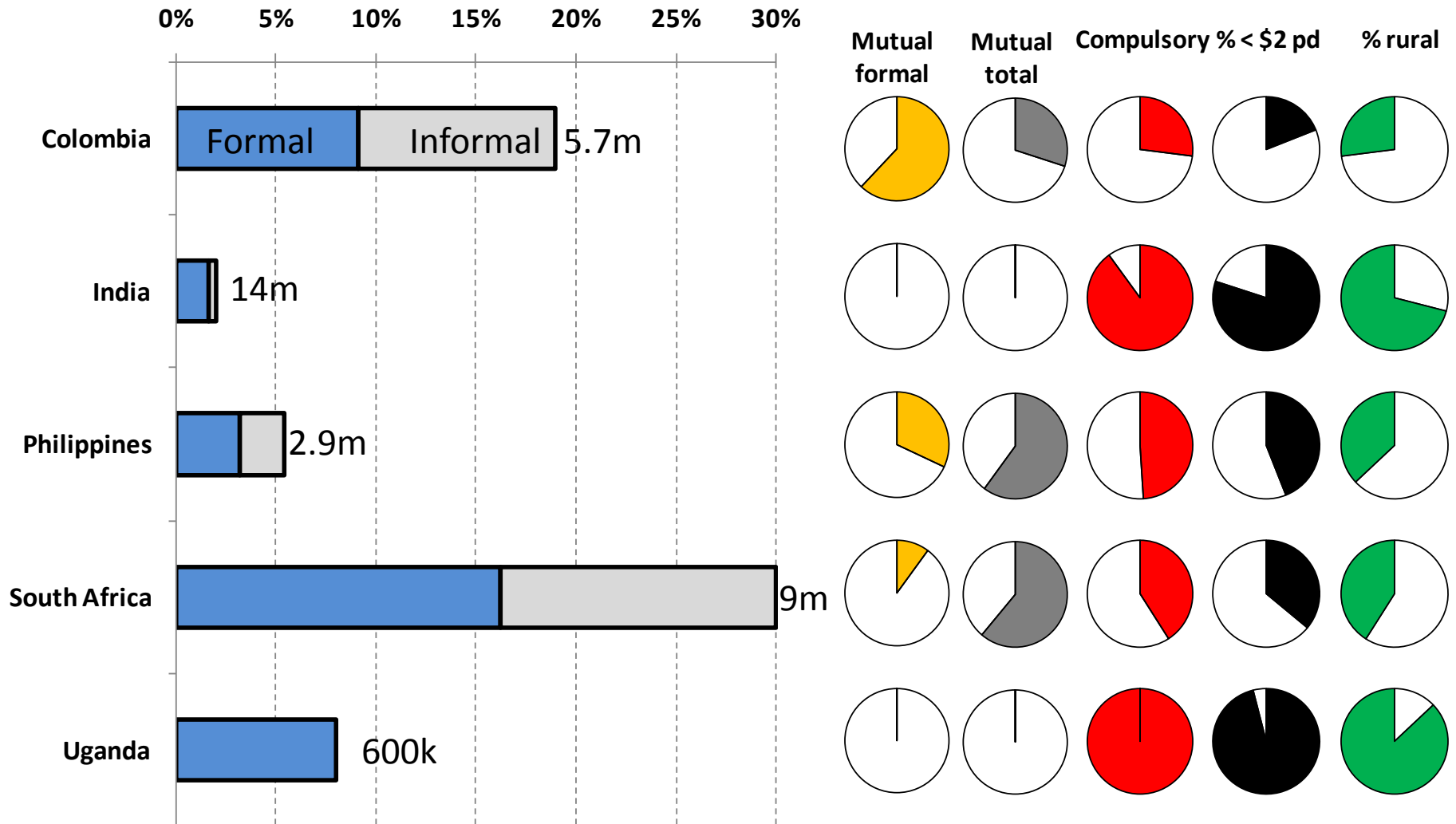
ii. Microinsurance evolution



Source: Chamberlain & Bester (2008)

iii. Salient features of case study countries

Percentage of adults



* Excludes indemnity health insurance.

