



Making insurance markets work for the poor: Policy, regulation and supervision

Evidence from Colombia, India, Philippines, South Africa and Uganda

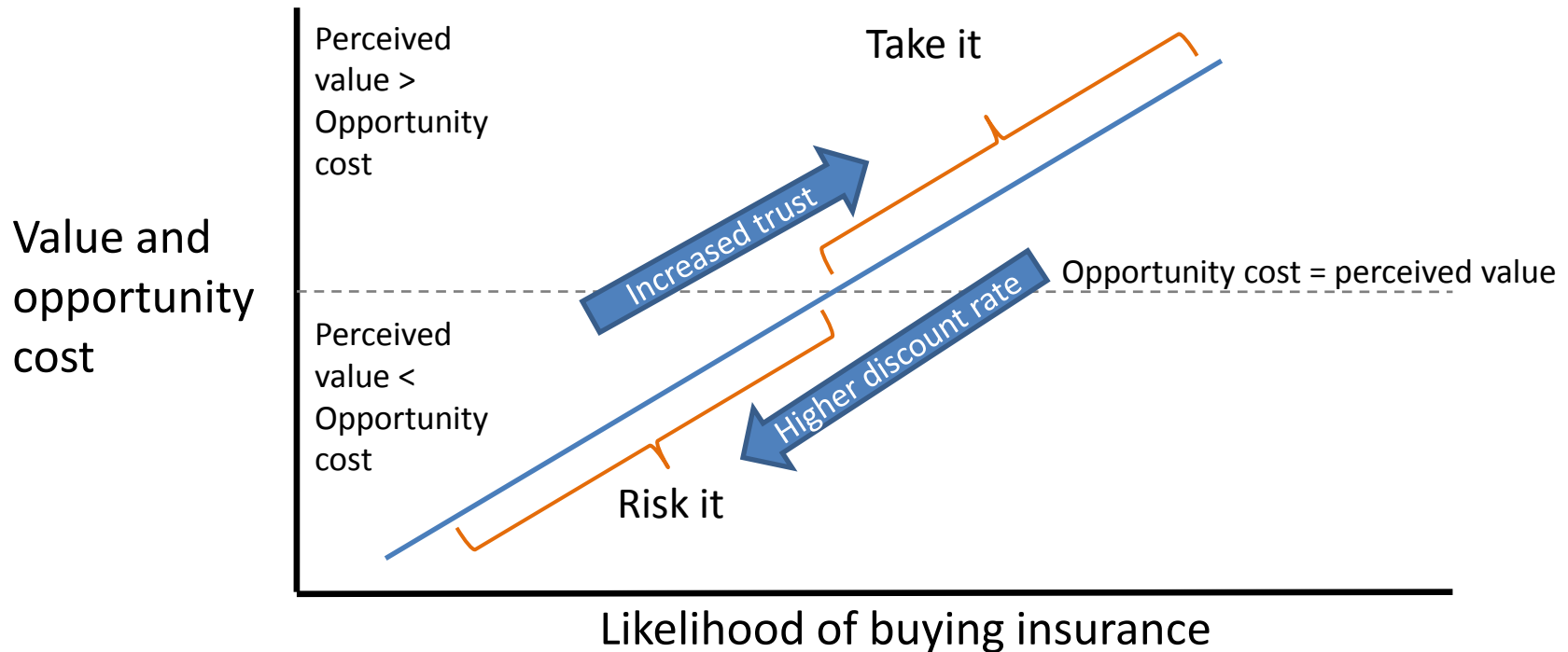


Themes for discussion

1. How do microinsurance markets evolve?
2. Tiered space for microinsurance
3. Regulatory approach and leadership

1. How do MI markets evolve?

The insurance 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

1. How do MI markets evolve?

MI evolution

1. Basic risk needs

- Unavoidable expense or loss of income: Need \neq demand
- No existing insurance market : Limited knowledge and awareness and exposure to formal financial sector in general

2. Market making

1. Compulsion

- credit life insurance
- demand driven by need for credit

2. Re-invention

- Group affinity and trust creates demand for insurance product
- Mutual insurer develop around shared member needs

3. Derived demand

- Insurance take-up based on demand for other product/service (e.g. health service, funeral)

4. Passive aggregators

- Standalone insurance sales
- Airtime networks, retailers
- Client expected to buy insurance product out of own volition

5. Individual agent-based sales

- Standalone insurance sales through brokers/agents
- Convince client of value through active sales process

Discovery of insurance service

Positive experience

Negative experience

- Lower-cost, passive aggregator models able to extend market:
- Pep/Hollard: Funeral insurance through retailer
- Codenza: Funeral insurance through utility company
- Allow faceless technologies in origination: Mobile phones

Aversion to insurance

Source: Chamberlain & Bester (2008)

1. How do MI markets evolve?

Policy issues to consider

- Build awareness and trust (perception of value)
- Facilitate positive market discovery and active sales process
- Allow alternative distribution models and partnerships
- Ensure protection (particularly where products are compulsory) but limit transaction-based regulatory cost

Emerging guidelines

Guideline 5: Allow microinsurance underwriting by multiple entities

Guideline 7: Create a flexible regime for the distribution of microinsurance

Guideline 8: Facilitate the active selling of microinsurance

1. How do MI markets evolve?

Discussion

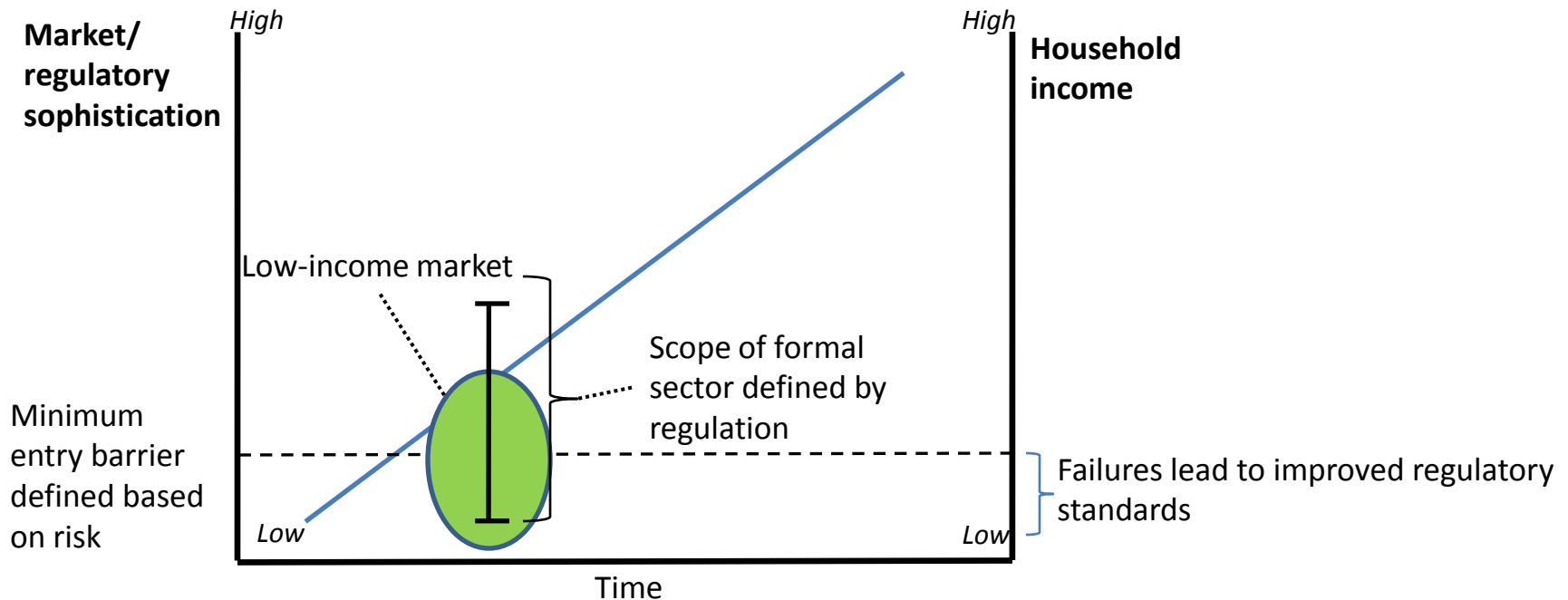
2. Tiered space for microinsurance

Regulatory burden

- Overall regulatory burden determine needs for MI space
 - Underwriting
 - Intermediation
- Regulation impact in the form of:
 - Compliance cost
 - Exclusions
- Regulatory response:
 - Low burden: no special MI dispensation necessary
 - High burden: special intervention required

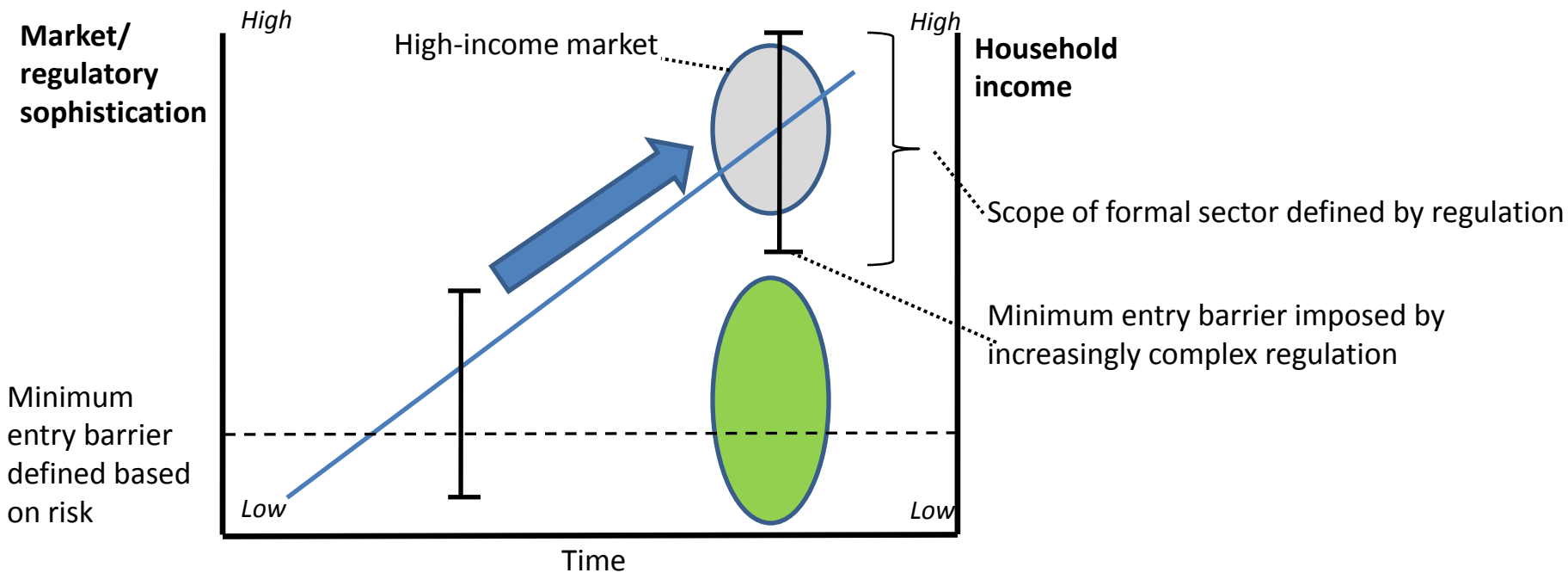
2. Tiered space for microinsurance

Regulatory drift



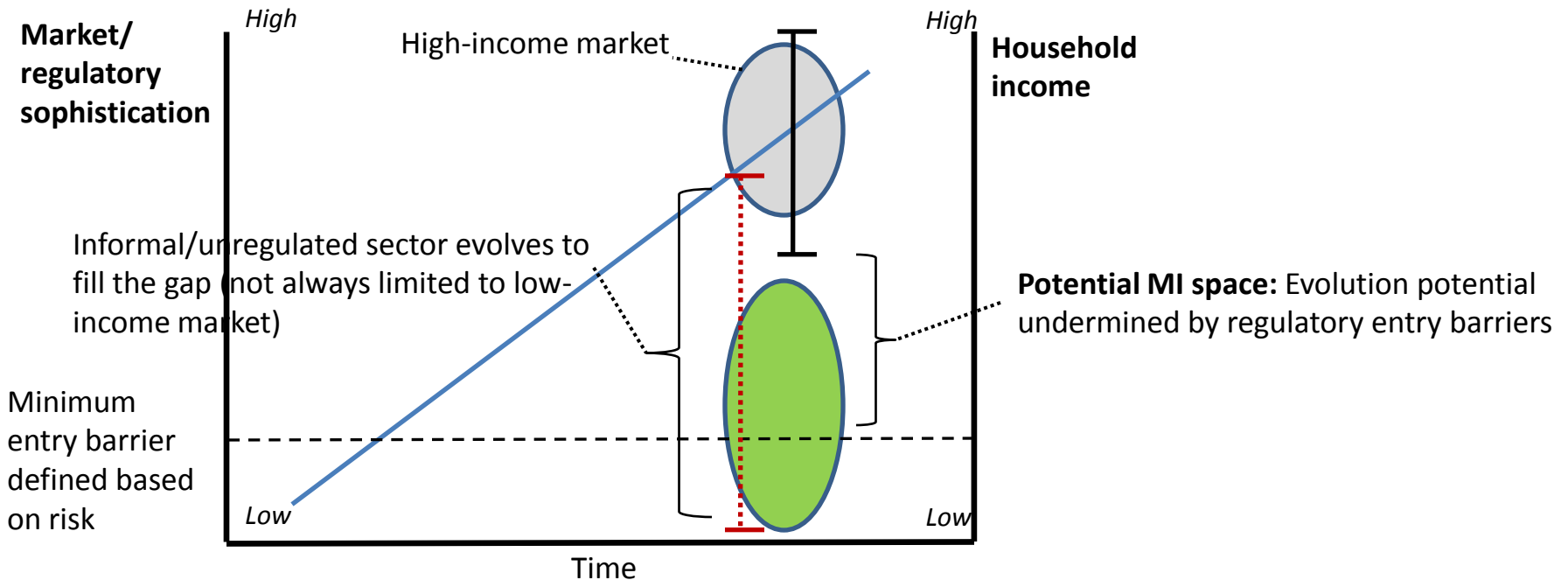
2. Tiered space for microinsurance

Regulatory drift



2. Tiered space for microinsurance

Regulatory drift



2. Tiered space for microinsurance

MI products and risk

- High entry barriers also due to capacity concerns
- Low-risk products may allow for management within capacity constraints
- Typical features of MI products:
 - Short-term contracts
 - Limited benefits
 - Simple policies
 - Limited risk events

2. Tiered space for microinsurance

Policy issues to consider

- High entry requirements with limited enforcement capacity may unintentionally entrench informality
- MI products can be defined to be low-risk
- Tiering and graduation supports entry and formalisation
- Risk of unlevel playing fields: tiering based on low-risk product allows for level playing fields

Emerging guidelines

Guideline 1: Take active steps to develop a microinsurance market

Guideline 3: Define a microinsurance product category

Guideline 4: Tailor regulation to the risk character of microinsurance

Guideline 6: Provide a path for formalisation

2. Tiered space for microinsurance

Discussion

3. Regulatory approach and leadership

Approach

- Regulatory approach
 - Pro-active vs reactive
 - Facilitative vs exclusionary

3. Regulatory approach and leadership

Financial inclusion policy

Two approaches:

1. Push interventions (e.g. India, South Africa)
2. Pull interventions (e.g. Colombia)

Limitation: Scope limited by commercial viability

Emerging guidelines

Guideline 1: Take active steps to develop a microinsurance market

Guideline 2: Adopt a policy on microinsurance as part of the broader goal of financial inclusion

Guideline 9: Monitor market developments and respond

Thank you!

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i. Objectives of emerging guidelines

1. Facilitate outreach and formalisation ensuring level playing field
2. Trigger positive discovery
3. Tailor regulation to MI risks
4. Minimise regulatory burden on underwriting and intermediation

Emerging guidelines

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Guideline 2: Adopt a policy on microinsurance as part of the broader goal of financial inclusion

Guideline 3: Define a microinsurance product category

Guideline 4: Tailor regulation to the risk character of microinsurance

Guideline 5: Allow microinsurance underwriting by multiple entities

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Guideline 7: Create a flexible regime for the distribution of microinsurance

Guideline 8: Facilitate the active selling of microinsurance

Guideline 9: Monitor market developments and respond

Guideline 10: Utilise market capacity to support supervision in low-risk areas