



Towards a dedicated microinsurance regulatory framework

South African case study

Presentation at the Insurance Regulators' Seminar
AIO Conference, Dar es Salaam, 24 May 2009

Background

- Cenfri: insurance theme manager to **FinMark Trust**
- This presentation:
 - ▣ SA pilot study, part of 5-country study for guidelines on RSP
 - ▣ SA one of the few countries that has embarked on regulatory process for development of a dedicated microinsurance regime
 - ▣ Lessons regarding:
 - Structure of regulatory framework & key regulatory questions arising
 - Process: where do you start? How do you go about it?



Overview

- The South African microinsurance market
- Rationale for regulatory review
- The regulatory design process & road ahead
- The Future of Microinsurance Regulation: main recommendations



SA insurance sector context

High-income end:

- very high penetration

Low-income end:

- underserved by formal market in SA context
- informal sector response

□ *To rectify past inequities:*

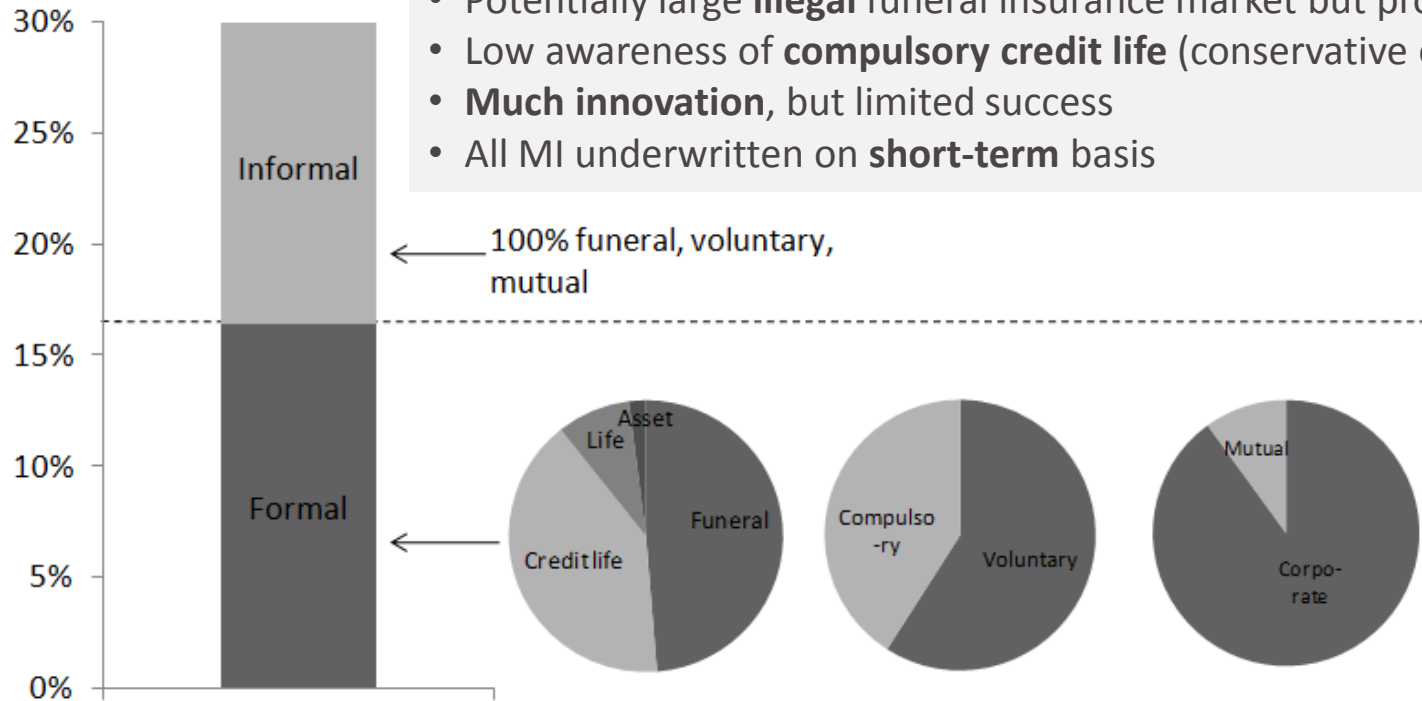
- Government transformation and empowerment objectives (B-BBEE)
- NT & FSB: **financial inclusion** policy goal
 - **Financial Sector Charter**



The microinsurance market

Salient features :

- 45% of LSM1-5 has insurance (30% of all adults)
- Large voluntary MI market dominated by **funeral** insurance (40% of LSM1-5)
- Mostly **informal** (61%)
- Potentially large **illegal** funeral insurance market but provided by **BSMEs**
- Low awareness of **compulsory credit life** (conservative estimate 1.75m)
- **Much innovation**, but limited success
- All MI underwritten on **short-term** basis



Total microinsurance market (% of adults)



MI product and distribution innovation

- Intermediation key to extending MI
- Recent innovation includes:
 - **Retail distribution**
 - Pep/Hollard, Shoprite/HTG/Old Mutual, retail account-based
 - **Cell phone distribution**
 - Discovery Pre-Paid Funeral Plan, Hollard “My funeral Card”, Metropolitan Cover2Go
 - **Group-based distribution**
 - African Life/ZCC, Hollard affinity groups, etc
- Based on non-advice “tick-box” selling of voluntary products through new channels other than traditional broker
- Innovation due partly to market forces, partly to FSC & FAIS interplay



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Rationale for regulatory review

1. Consumer abuse, need for formalisation, enforcement

- Limited consumer awareness, trust
- Large informal market with no protection for consumers
 - ▣ Funeral parlours: formalisation, enforcement
 - ▣ Credit life: improved value and protection

2. Remove regulatory barriers, facilitate market development

- **Need for low premiums**, innovative products & models
- **Market conduct regulation** increases costs, leaves poor vulnerable
 - ▣ Advice limited to high-income market
 - ▣ Tick-box for low-income market: ltd success beyond funeral insurance and risk of misselling
- Create the space for models to grow beyond funeral insurance

- **Institutional regulation:**
 - ▣ Need for facilitation of new entrants
 - ▣ Remove entry barriers for smaller and mutual insurers (e.g. Friendly societies; larger funeral parlours)



Rationale for regulatory review

1. Consumer abuse, formalisation, enforcement

- Large informal market with no protection for consumers
- Credit life: improved value and protection

Need for coherent regulatory framework to provide for all providers of MI on a level playing field:

2. Remove regulatory barriers, facilitate market development

□ **Out-reach** conduct regulation increases costs, leaves poor people
□ Advice limited to high-income market
□ Lack of box for low-income market: ltd success beyond funeral insurance and risk of misselling
□ Create space for models to grow and extend beyond funeral

□ **Formalisation** Institutional:
□ Need for formal new entrants
□ Remove entry barriers for smaller and mutual insurers (e.g. Friendly societies; larger funeral parlours)



The regulatory design process

□ Process leading up to discussion paper:

2003	PCOF hearings on abuses in the funeral benefits industry
2005	FMT study into funeral assistance business Joint NT/FSB task team set up to direct the assistance business reform process (PCOF updated to these developments)
2006	Project extended beyond funeral assistance business to consider all microinsurance
2007	Inter-department forum to ensure alignment across government
2008	Joint NT/FSB discussion paper released for public comment



□ Process after release:

2008	Submission of comments on discussion paper Awareness-building roadshow Further submissions post-roadshow
2009	Regulatory proposals to be updated (actuarial, legal review), released for public comment Possibility: second national roadshow
2010	Draft legislation tabled to parliament
2010 /11	Implementation



Main elements of the proposed regulatory framework

- **National Treasury Discussion Paper:** “The future of microinsurance regulation”
- Product risk-based approach:
 1. Define MI products within regulation to limit risk
 2. Tailor regulation to lower risk:
 - Underwriting
 - Market conduct/intermediation
 - Institutional requirements
 3. Improve consumer protection, recourse, enforcement (with compliance support for funeral parlours)



Proposed regulatory framework: micro-insurance definition

Proposed definition to limit market conduct and prudential risk:

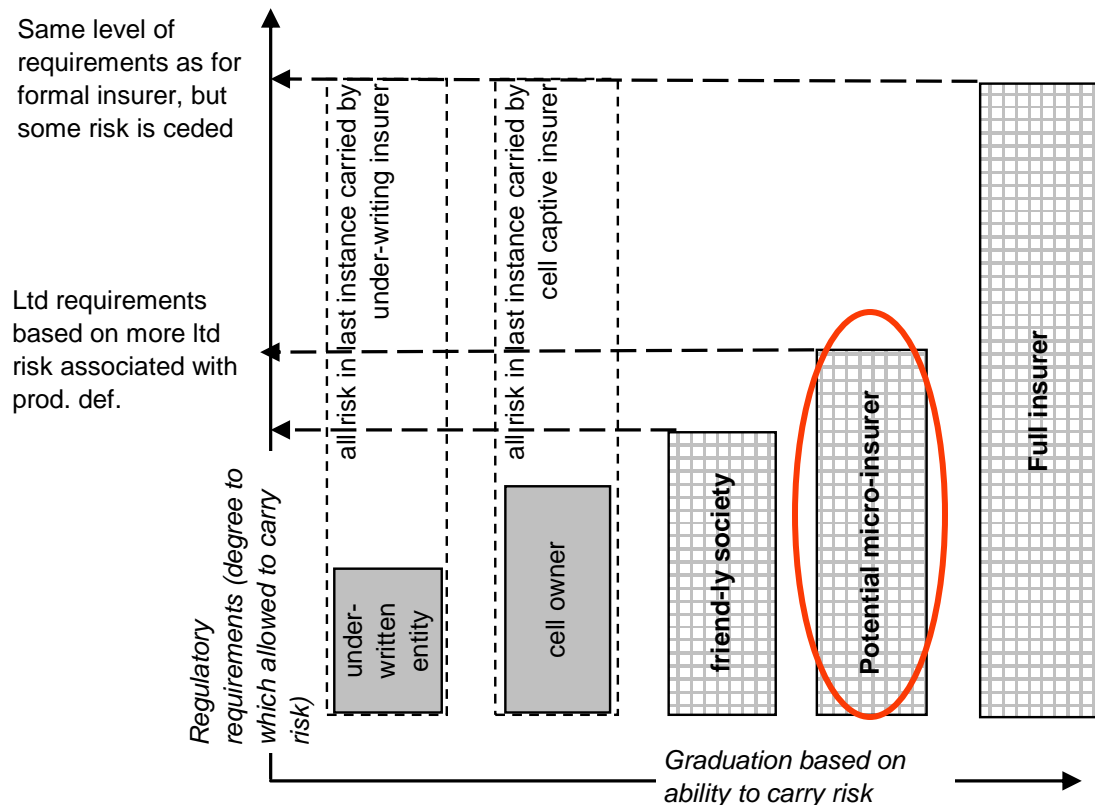
- Starting point: benefits capped at R50,000 (~\$6,000)
- Term of less than 12 months
- Limited to risk-only
- Allowing both life and non-life underwriting in a single entity
- Simple terms and conditions



Proposed regulatory framework: institutional options

MI institutional forms allowed: public companies, friendly societies, cooperatives, with cross-cutting *minimum set of corporate governance requirements*

Dedicated MI license one of a range of options for providing MI:



Proposed regulatory framework: underwriting & intermediation requirements

Prudential requirements:

- Limited to MI products as defined
- Upfront capital of R3m (~\$0.4m)
 - ▣ vs. current: ~\$1.2m life, ~\$600k non-life
- Reserving based on simplified standard model
- Reduced organisational capabilities
- Restricted investments

Market conduct requirements:

- Similar regime to current funeral insurance intermediaries:
 - ▣ Reduced minimum skills level in favour of training requirements
 - ▣ No advice required (but incentivised through commissions)
 - ▣ Simplified and clear language disclosure
 - ▣ Uncapped commissions
 - ▣ Reporting to regulator for monitoring



Lessons and road ahead

1. Consumer abuse,
enforcement

Does the proposed framework meet its objectives?

- Large informal market with no protection for consumers
- Funeral parlours: formalisation, enforcement
- Credit life: improved value and protection

How to define exact parameters?

How to ensure take-up?

2. Remove
regulatory
facilitate market
development

Importance of public consultation

- **Market conduct regulation** increases costs, leaves poor vulnerable
- Advice limited to high-income market
- Tick-box for low-income market: ltd success beyond funeral insurance and risk of misselling

Importance of holistic approach

- **Institutional regulation:**
- Need for facilitation of new entrants
- Remove entry barriers for smaller and mutual insurers (e.g. Friendly societies; larger funeral parlours)



Thank you!

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