

Assessing the Regulatory Environment - Microinsurance



International Association
of Insurance Supervisors

Arup Chatterjee
Principal Administrator
1 October 2008



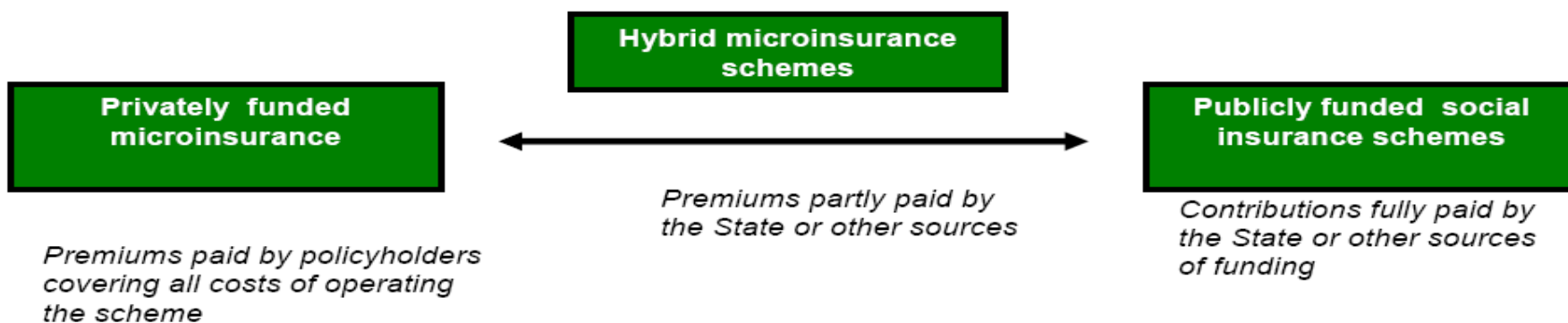
**World Microfinance
Forum Geneva**
Promoting Inclusive Financial Markets

***Building Fair Financial Markets for All: Profitable Investment
Opportunities in Micro and Small Businesses***
Geneva, Switzerland, October 1-2, 2008



Best practices and bench marks

- Active steps to promote microinsurance
- Policy on microinsurance part of financial inclusion
- Define microinsurance - tailor regulation to risk characteristics



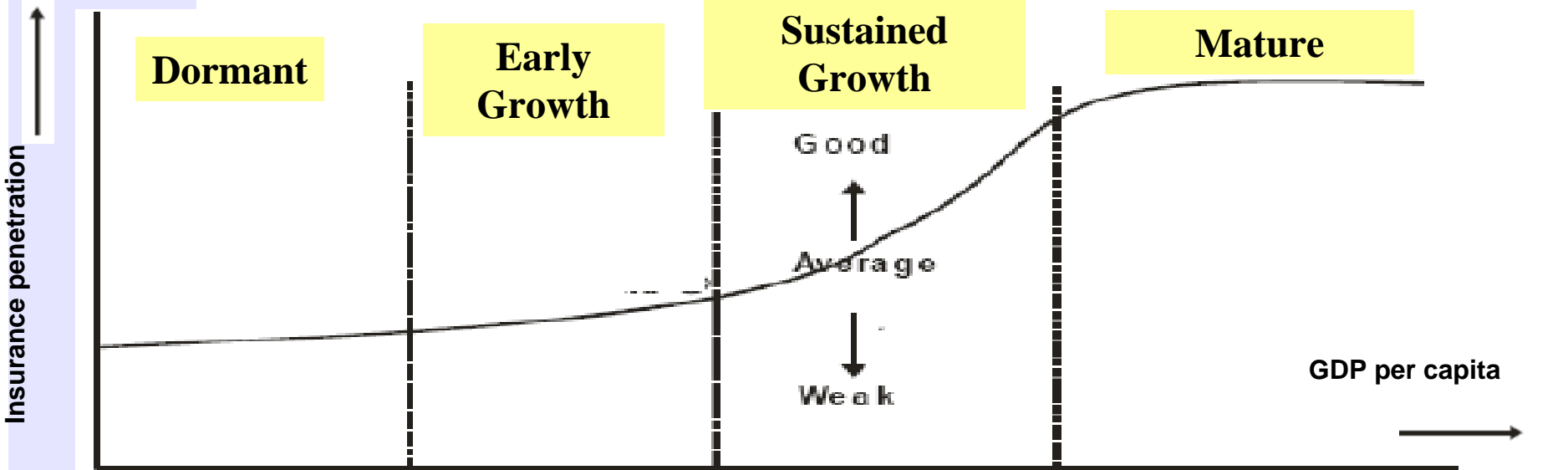
- Create flexible regime – product design, distribution, payment, servicing, leveraging on technology

- Data (relevant and accurate)
- Financial statements
- Reserves/ Solvency
- Claims monitoring- Rejection/ Utilisation/ Promptness
- Renewals (Lapsation)

- Investment policy (Liquidity)
- Incurred expense ratio
- Disclosure
- Client Focus – coverage, growth, product-design
- Grievance redressal



Different stages of development and capacity requirements



<ul style="list-style-type: none"> •Property rights •Legal framework •Political stability •Contract enforcement 	<ul style="list-style-type: none"> •Income •Scale •Econ stability •Mkt restrictions 	<ul style="list-style-type: none"> •Financial sector reforms •Enforcement •Judicial efficiency •Transparency 	<ul style="list-style-type: none"> •Tax incentives <p>External Factors</p>
<ul style="list-style-type: none"> •Insurance Law •Regulatory/ Supervisory framework •Basic data collection •Risk mgt by Gov't 	<ul style="list-style-type: none"> •IAIS Core Principles •Consumer awareness of risks •Actuaries and Professionals •Data collection •Market conduct and Transparency •Consumer protection/ support 	<ul style="list-style-type: none"> •Alternate risk management and finance •Financial market securitisation <p>Industry Specific factors</p>	



Assessing appropriateness and adequacy

Regulatory approach	<ul style="list-style-type: none">• Proactive vs. reactive• Facilitative vs. exclusionary
Regulatory burden	<ul style="list-style-type: none">• Impact of compliance cost• Impact of exclusions• Regulatory response<ul style="list-style-type: none">– Low burden (no special dispensation)– High burden (special intervention)
Financial Inclusion	<ul style="list-style-type: none">• Push interventions• Pull interventions <p>Scope limited by commercial viability</p> <p>Compulsion requires monitoring and disclosure</p>
Prudential requirements	<ul style="list-style-type: none">• High entry requirements » <i>informality</i>• Tiering and graduation » <i>supports entry and formalisation</i> <p>Beware of unlevel playing fields</p>



Assessing appropriateness and adequacy

Who can underwrite?	<ul style="list-style-type: none">• Mutuels and cooperatives have a critical role to play <p><i>Stumbling block: Corporate governance weakness</i></p> <ul style="list-style-type: none">• Strict demarcation vs. composite underwriting
Insurance definition	<ul style="list-style-type: none">• Weak definitions » avoidance• Using low risk features to define microinsurance products
Market conduct regulations	<ul style="list-style-type: none">• Multiple channels for low cost distribution• Price controls and capping of incentives <p><i>Beware of increasing levels of transaction costs</i></p>
Supervision and enforcement	<ul style="list-style-type: none">• High regulatory burden with limited capacity incentivises informality <p><i>Microinsurance often evolves in regulatory and enforcement gaps</i></p>



Questions and Answers



www.iaisweb.org



Arup.Chatterjee@bis.org