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FINMARK TRUST

International Microinsurance trends and regulation

Presentation to industry stakeholders, Maputo 17 Sep 2010

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About FinMark Trust and Cenfri

- Independent trust established in 2002
- Initial funding from the UK's Department for International Development (DFID)
- Mission: "Making Financial Markets Work for the Poor" in Africa
- Facilitating and catalysing the next generation of development around access to financial services.
- Theme areas:
  - FinScope
  - Housing finance
  - Credit
  - Consumer financial empowerment
  - Rural and agricultural finance
  - Retail payment systems
  - Insurance
- Further information available at: www.FinMarkTrust.org.za

Finscope 2009

Key insights

- Finscope measures access to and usage of both formal (including insurance) and informal financial services.
- By virtue of this definition, the study also explores other topics related to this measurement including source of income, financial literacy usage of formal versus informal financial services etc
- This data is freely available (Central Bank)
- For more information please go to www.finscope.co.za

Finscope 2009
Key findings

- 9% of the population earns a wage or salary – some stable form of income
- Furthermore:

Income brackets	% of adults	US Dollars per day
menos de 5.000,00mt	42.06	0 to 37 cents per day
entre 5.001,00 e 25.000,00 mt	23.87	37 cents to $1.84 per day
entre 25.001,00 mt e 50.000,00 mt	5.9	$1.84 to $3.68 per day
entre 50.001,00 mt e 100.000,00 mt	1.78	$3.68 to $7.40 per day
entre 100.001,00 mt e 200.000,00 mt	0.8	$7.40 to $14.80 per day
entre 200.001,00 mt e 300.000,00 mt	0.38	$14.80 to $22.22 per day
entre 300.001,00 mt e 500.000,00 mt	0.19	$22.22 to $37 per day

- 13% have access to the formal financial sector (**12% banked**, 1% other)
- **Savings**: 5% formal, 6% at home, 10% informal and 80% not saving
- 10% of respondents make us of informal financial services
- **Informal financial services**: 5.7% xitique, 1.3% funeral association, informal family grouping sharing a conta da familia 0.8%
- Usage of informal financial services indicative of people managing their money

Finscope 2009
Continued

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- 5.90% of respondents have funeral cover
- 63% of respondents mentioned they did not have funeral cover because they did not know they could have it or were unaware of funeral cover – **only 20% indicated they had no cover because they couldn't afford it**

INSURANCE

- **2.3% of respondents have insurance –** mostly employer based or subsidised for example, employer subsidised insurance, employer
- **Top three: employer covered funeral insurance, employer covered accident insurance and employer subsidised medical aid.**
- **The picture may look bleak, but potentially there are opportunities**

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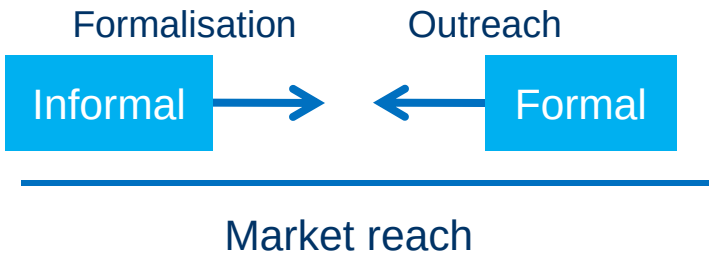
Why regulate MI?

- Policy objectives
  - Stability
    - Sufficient prudential management
  - Consumer protection
    - Formalisation & enforcement
    - Intermediation regulation
    - Consumer education
  - Market development, financial inclusion
    - Creating regulatory space for outreach and formalisation
- Changing mindset
  - Emerging conceptual framework to understand the market
  - Microinsurance is not microbusiness – understanding the bottom line & getting to grips with innovation & implications for regulation
  - New regulatory approaches will be required



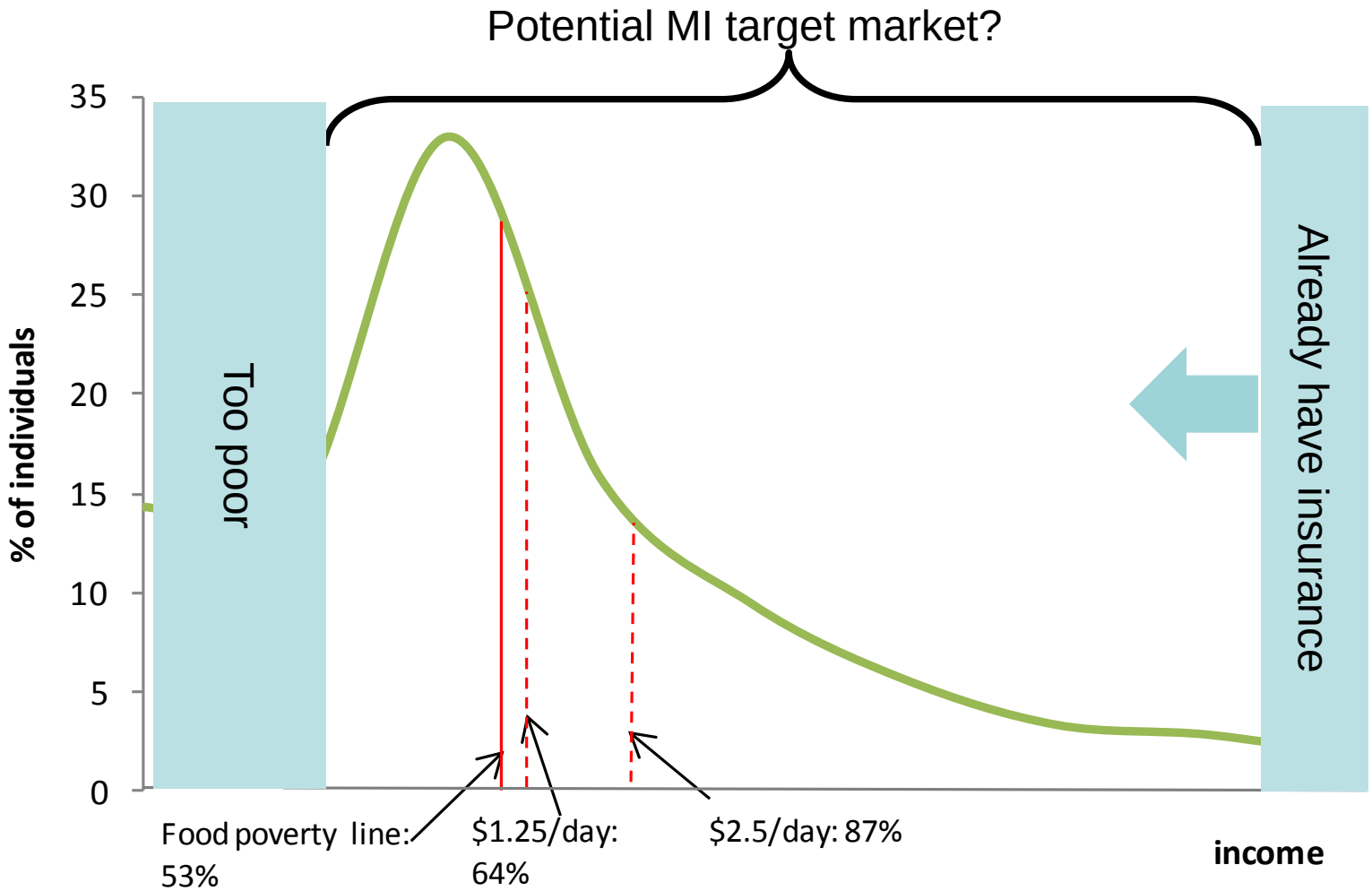
Some international MI trends

- Credit life (conditional)
- Funeral insurance (voluntary)
- Personal accident (voluntary)
- Little asset (extended warranties, cell phone, household content and structure)
- Short-term/renewable (monthly/annually)
- Often credit-led (banks, MFIs and payroll lenders)
- Mutuals/coops play a role
- Active sales required
- Large informal markets

What is MI?

- IAIS definition: insurance for low-income market
- Regulatory definition necessary?
  - Common understanding
    - Appropriate and realistic income target
    - Distinguish social welfare from insurance
  - Target subsidy
  - Define quotas
  - Carve out regulatory space
- Practical definitions:
  - Income levels (e.g. 3 min wages in Brazil – not in regulation)
  - Premium caps (e.g. $25 pm in Philippines)
  - Benefit caps (e.g. $7k in SA, $5k Mexico)

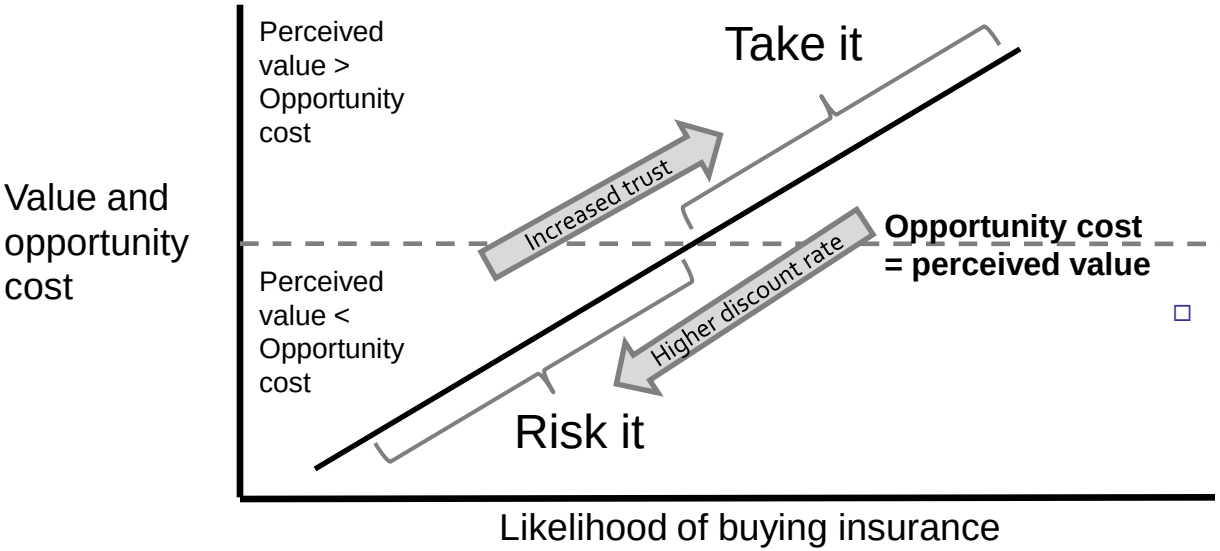
Understanding the market: MI target



- Consider policy objectives: MMW vs poverty relief
- Define MI within limits of commercial viability
- Very low insurance penetration: Insurance sector development

Understanding the market: the insurance decision

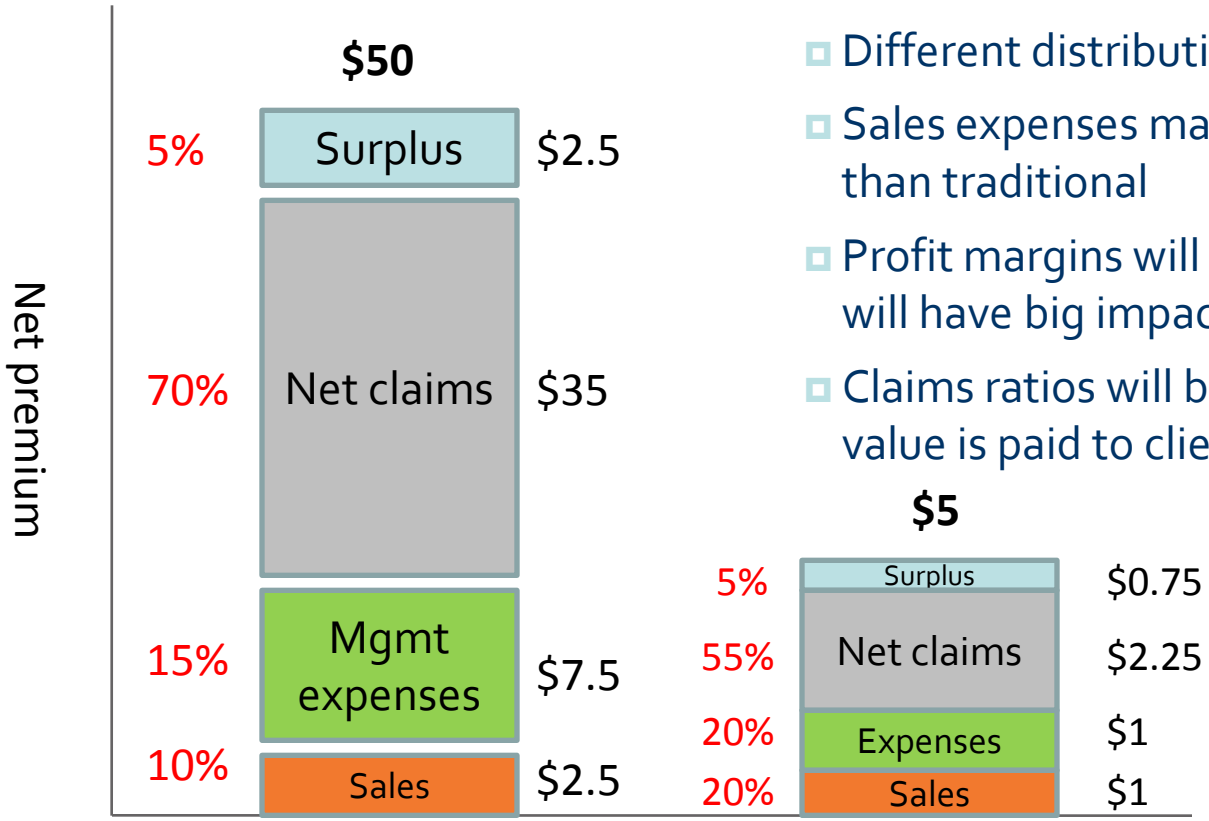
What will make low-income people buy insurance?



- **Perceived value**
  - Discount rate, tangible and "in life" benefits
  - Probability: underestimate risk
  - Trust: Likelihood of successful claim
  - Perceptions – awareness and financial education, active sales, demonstration
- **Perceived opportunity cost**
  - Less disposable income means higher opportunity cost
  - Product design: cost and frequency of premiums, product-demand match

- Encourage innovation to address these issues
- Facilitate active sales
- Build trust
- Encourage product simplification

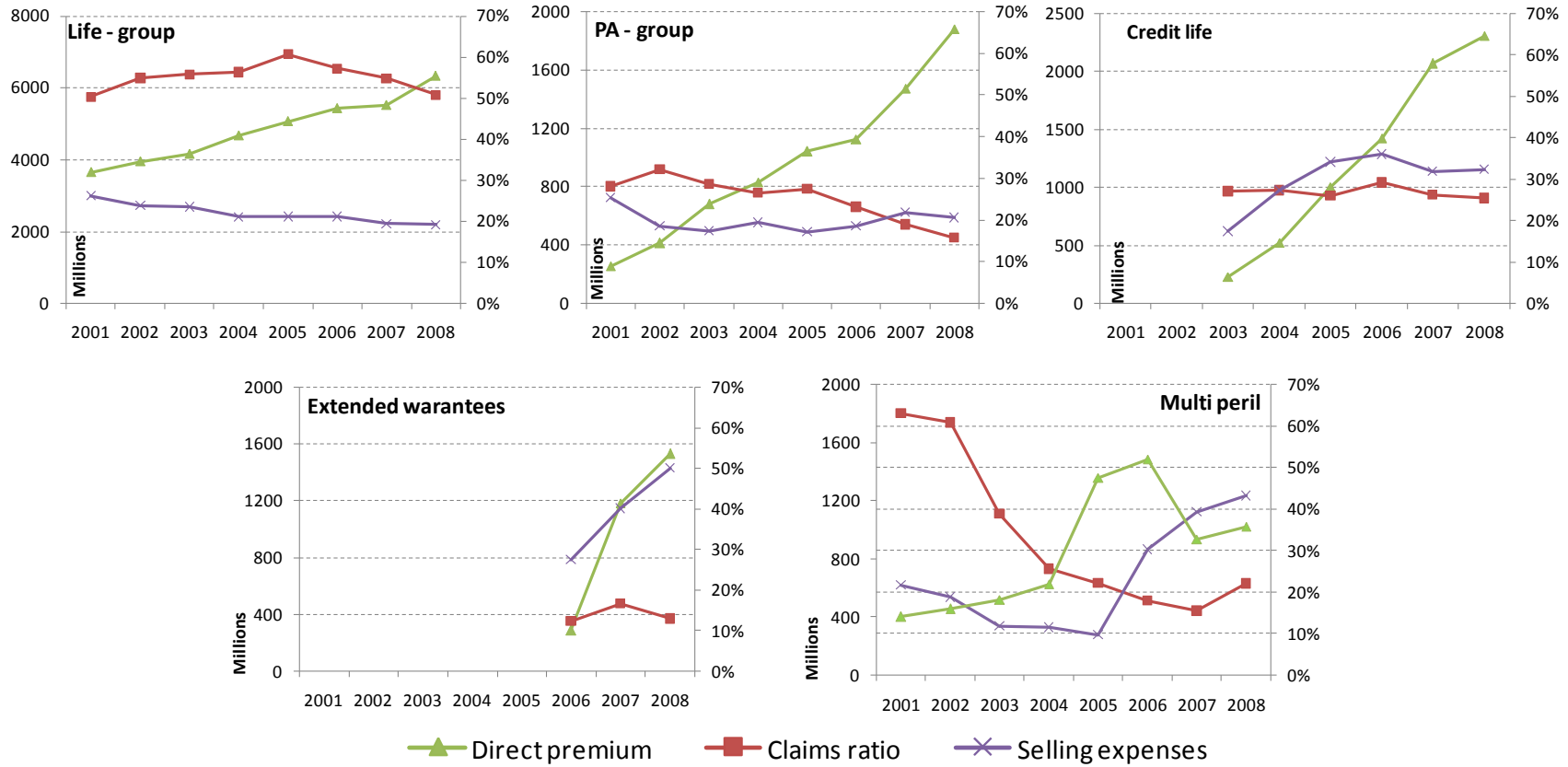
Understanding the market: The bottom line



- Low premiums require scale and very efficient administration
- Different distribution of costs
- Sales expenses may be proportionally higher than traditional
- Profit margins will be thin and regulatory costs will have big impact on viability
- Claims ratios will be lower: Need to ensure that value is paid to clients in the form of claims

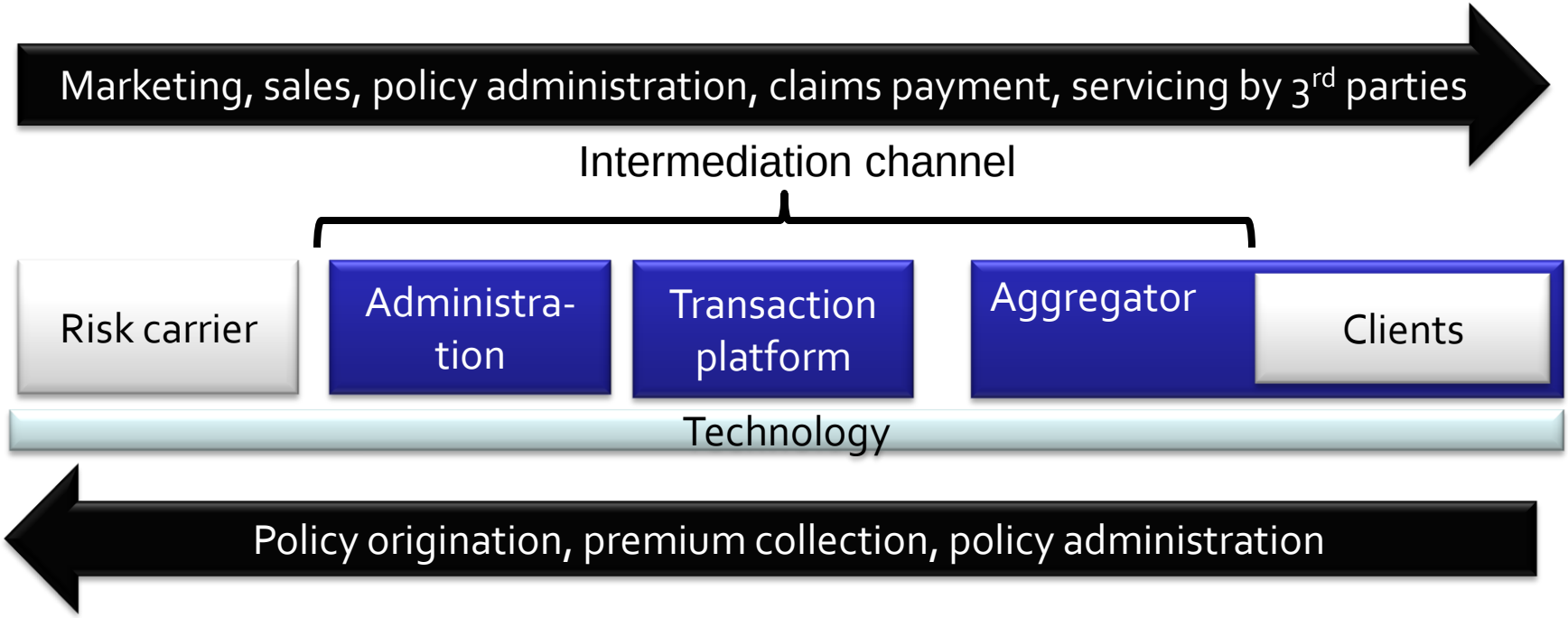
- **Minimise costs**
- **Ensure value**
- **Flexible cost structure**

Customer value: Brazilian example



- Increasing client coverage, premium growth
- But decreasing value to consumer: claims ratios dropping and/or very low
- Sales expenses increasing and very high on credit life and extended warranties (bundled products)

Innovation across the MI value chain



Source: Bester, Chamberlain, Hougaard (2007) adapted from Leach (2005)

Typology of MI models

- **Retailer-based**
  - **Pep Hollard (SA)**
  - Shoprite Multiple products (SA)
  - Old Mutual Pay-When-You-Can (SA)
  - **Mapfre Casas Bahia (Brazil)**
  - Seguros Azteca (Mexico)
  - **Colseguros Carrefour (Colombia)**
- **Bill payments / Airtime**
  - **Hollard Take it Eezi (SA)**
  - Cover2Go Wiredloop (SA)
- **Cell phone**
  - **Safari Bima (Kenya)**
  - Cover2Go cell phone accidental death (SA)
  - Philam/ AKSIText (Philippines)
- **Affinity group**
  - **Bima ya Jamii (Kenya)**
  - Sanlam Sky ZCC (SA)
  - Hollard Kaizer Chiefs (SA)
- **Database/ utility**
  - **Mapfre CODENSA (Colombia)**
  - AON QBE (Brazil)
- **Traditional agents**
  - SINAF (Brazil)
  - Sanlam Sky (SA)
  - Clientele (SA)

Your new agency force?

Cross-cutting intermediation themes

Need to rethink nature of intermediation

- Spread across several entities not traditionally regulated by insurance supervisor (impact of other regulation)
- Definitions of brokers and agents vs direct sales vs outsourcing (avoidance of intermediation)
- Importance of face-to-face active sales (e.g. telesales experience)
- Structure and level of remuneration, sharing in revenue

Aggregators lead interaction and incentivised to act in clients interest

- Brand Trust and reputational risk
- Control price increases and ensure claims payment (e.g. Pep)
- Research to develop better products (e.g. CODENSA, Pep)
- Yet insurance regulation tends to be biased towards insurers and traditional intermediaries

Group underwriting and contractual relationships

- Underwrite on group basis even though may be individually sold
- Open voluntary groups, master policies

Technology important facilitator but is not always cheap

- Communication (Pep), data (Take it Eezi), payments (Safari Bima): not always lower cost
- Claims management (Jet/Hollard claims runner)

Product innovation

- Casas Bahia: Life (food hamper) + personal accident + income replacement + medical discounts + lottery
- CODENSA and Jet: Household structure and content (rental market, technology enabled claims management, sum assured)
- CIC: Public health insurance + PA + funeral

Drivers of regulatory design

Market realities

+

- Low overall insurance penetration and income levels: sector development
- Product-specific dynamics (Compulsory credit life, funeral, etc)
- Types of providers (e.g. mutuals) and value chain
- Limited infrastructure
- Credit-led BUT new channels opening up
- Bottom line and value proposition

Regulatory objectives

→

- Balancing stability and development
- Challenge of protecting and including the poor: Trigger take-up of appropriate products
- Improve value proposition: Large part of MI still offers limited value to the poor
- Facilitating outreach and formalisation
- Dealing with informality
- **Regulatory capacity and resources**

Regulatory design

- **Tailor to domestic environment**
- Regulatory approach: Encourage, facilitate, coerce
- MI definition
- Tiered space required and appropriate?
- Degree of consumer protection and market conduct?
- Coordination/collaboration with other regulators
- Enforcement and recourse

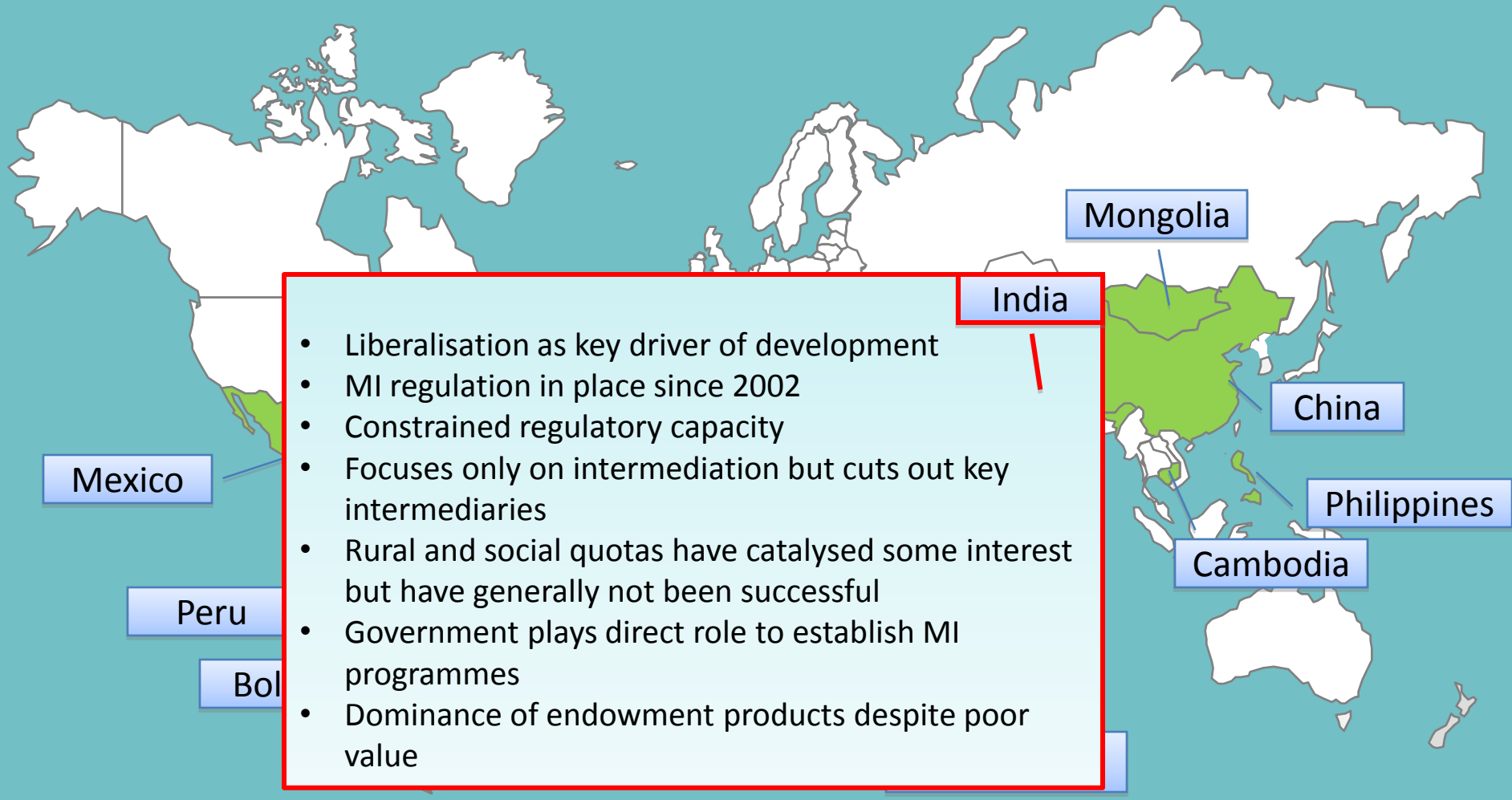
Country examples

Country examples

Colombia

- Market led development possible due to low overall regulatory burden
- Support from financial policies in banking sector: "Opportunity banking programme"
- Liberalisation and foreign entry as driver to go down-market
- Mutuals play a big role but are regulated in same way as formal insurers
- Regulatory loopholes have allowed Funeral parlours to offer in-kind benefits outside of regulatory framework

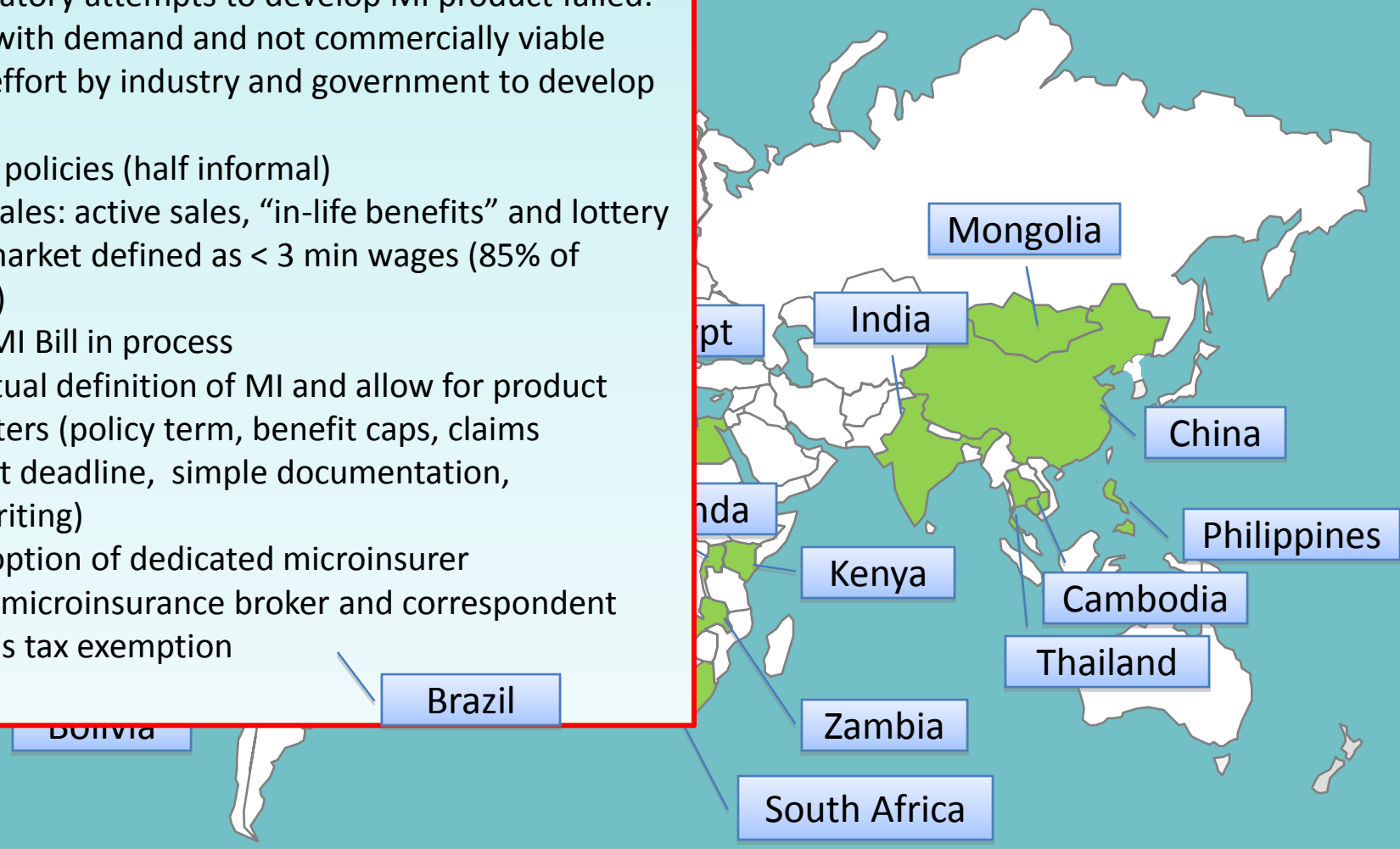
Country examples



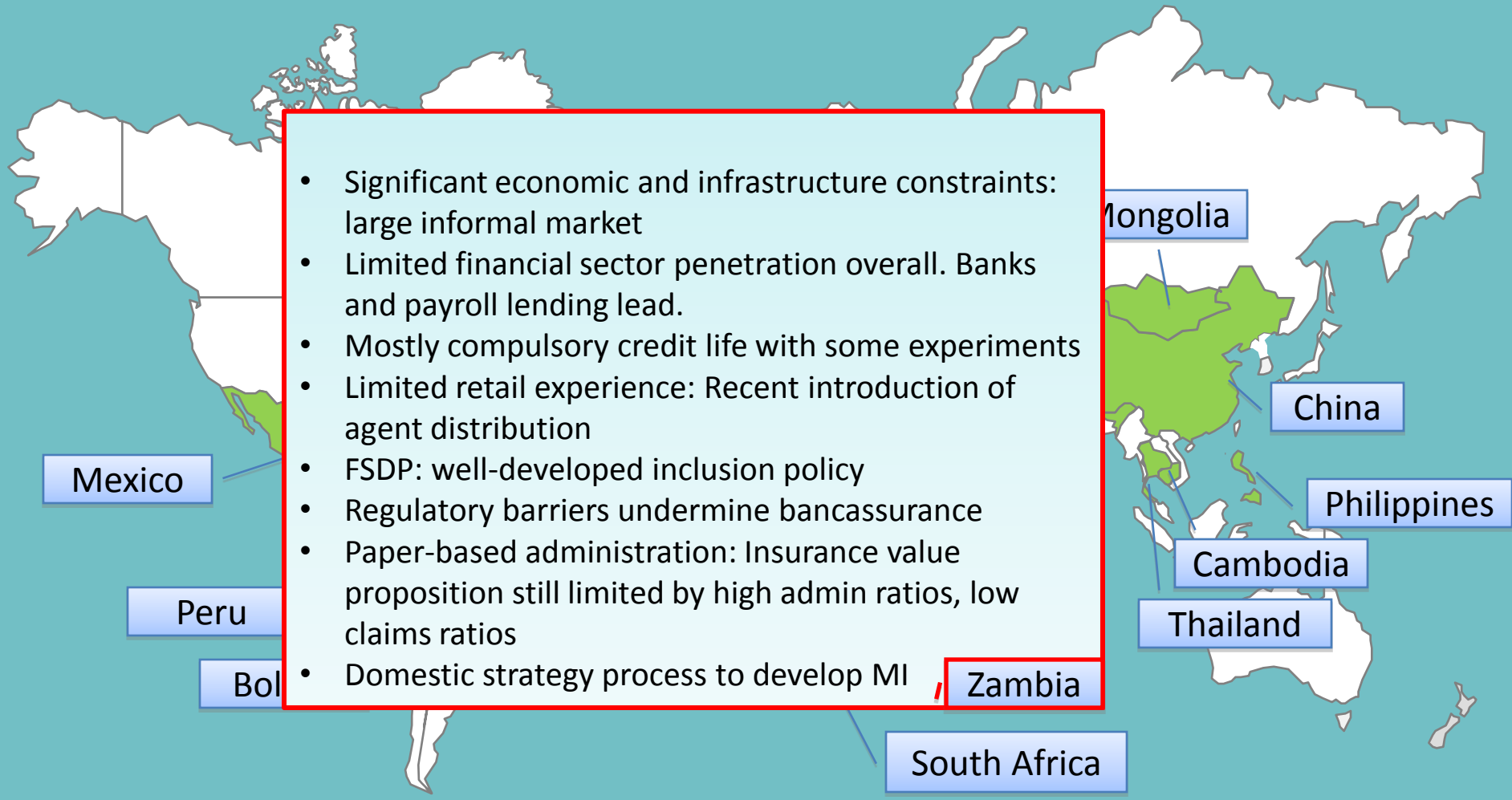
- Liberalisation as key driver of development
- MI regulation in place since 2002
- Constrained regulatory capacity
- Focuses only on intermediation but cuts out key intermediaries
- Rural and social quotas have catalysed some interest but have generally not been successful
- Government plays direct role to establish MI programmes
- Dominance of endowment products despite poor value

Country examples

- Initial regulatory attempts to develop MI product failed: not in line with demand and not commercially viable
- Collective effort by industry and government to develop MI market
- 30-40m MI policies (half informal)
- Drivers of sales: active sales, “in-life benefits” and lottery
- MI target market defined as < 3 min wages (85% of population)
- High level MI Bill in process
- Conceptual definition of MI and allow for product parameters (policy term, benefit caps, claims payment deadline, simple documentation, underwriting)
- Create option of dedicated microinsurer
- Creates microinsurance broker and correspondent
- Proposes tax exemption

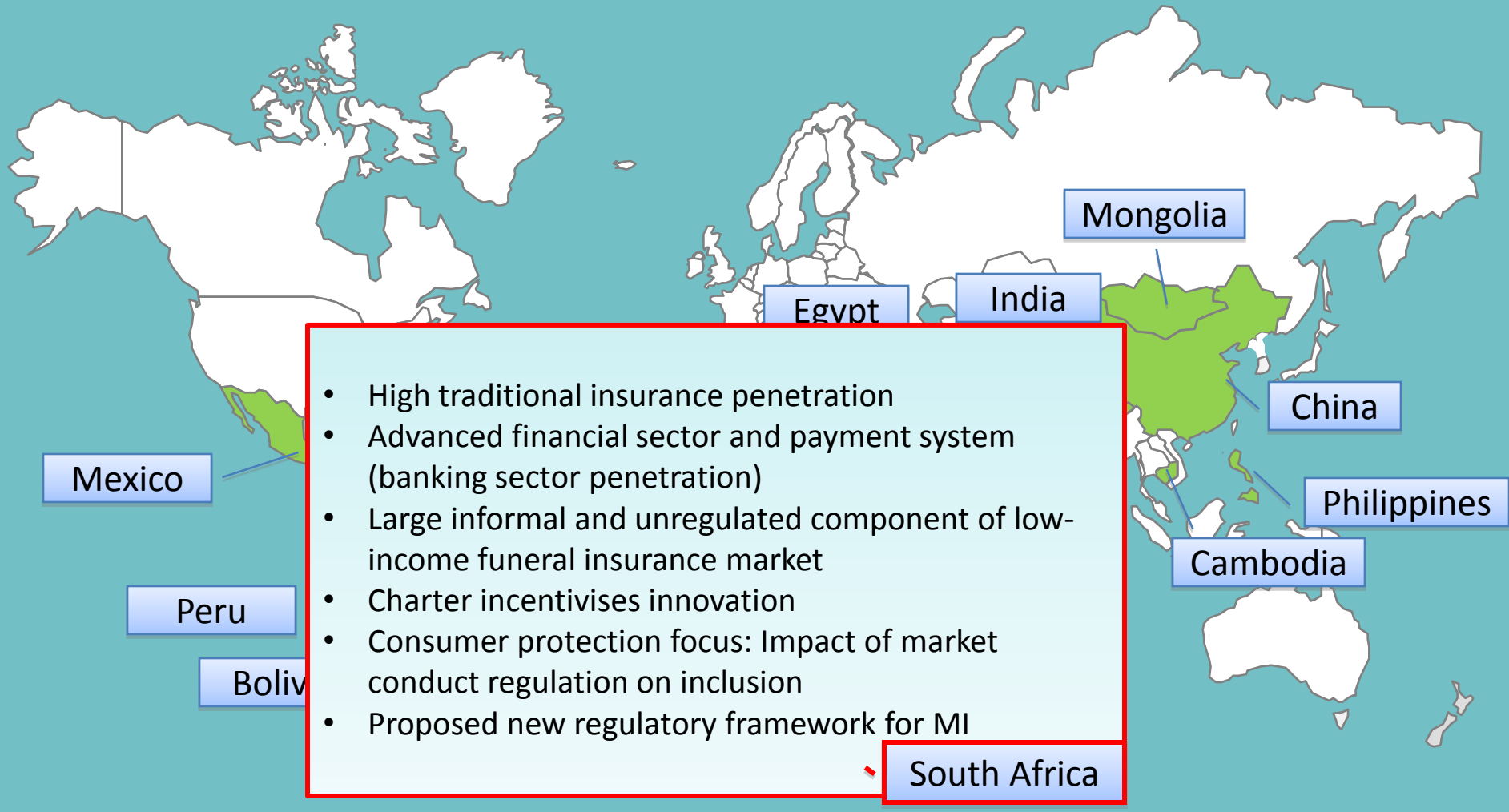


Country examples



- Significant economic and infrastructure constraints: large informal market
- Limited financial sector penetration overall. Banks and payroll lending lead.
- Mostly compulsory credit life with some experiments
- Limited retail experience: Recent introduction of agent distribution
- FSDP: well-developed inclusion policy
- Regulatory barriers undermine bancassurance
- Paper-based administration: Insurance value proposition still limited by high admin ratios, low claims ratios
- Domestic strategy process to develop MI

Country examples



- High traditional insurance penetration
- Advanced financial sector and payment system (banking sector penetration)
- Large informal and unregulated component of low-income funeral insurance market
- Charter incentivises innovation
- Consumer protection focus: Impact of market conduct regulation on inclusion
- Proposed new regulatory framework for MI

Proposed new SA MI regulatory framework

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Market realities

- Concerns over abuse
- Large informal market
- Formal funeral insurance
- Compulsory credit life
- Innovation
- Strict market conduct reg

Objectives:

- Facilitate inclusion
- Facilitate entry and innovation
- Deal with the informal market
- Protect consumers & ensure value proposition
- Move beyond funeral

Implications for regulation:

- Specific MI definition
- Minimise regulatory costs – especially on intermediation
- Create space for 2nd tier of insurers and intermediaries
- Set product & other parameters to ensure value & protection (create space for non-funeral)

Proposed new SA MI regulatory framework

1. Limit risk through definition
2. Create space for underwriters
3. Create space for intermediaries
4. Enforcement and recourse

Guidelines to consider

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 3: *Define a microinsurance product category*

Guideline 4: *Tailor regulation to the risk character of microinsurance*

Guideline 5: *Allow microinsurance underwriting by multiple entities*

Guideline 6: *Provide a path for formalisation*

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*

Thank you

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Sources

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