IAIS

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

ISSUES PAPER ON CONDUCT OF BUSINESS IN INCLUSIVE INSURANCE

POST CONSULTATION DRAFT 13 OCTOBER 2015

About the IAIS

The International Association of Insurance Supervisors (IAIS) is a voluntary membership organisation of insurance supervisors and regulators from more than 200 jurisdictions in nearly 140 countries. The mission of the IAIS is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability.

Established in 1994, the IAIS is the international standard setting body responsible for developing principles, standards and other supporting material for the supervision of the insurance sector and assisting in their implementation. The IAIS also provides a forum for Members to share their experiences and understanding of insurance supervision and insurance markets.

The IAIS coordinates its work with other international financial policymakers and associations of supervisors or regulators, and assists in shaping financial systems globally. In particular, the IAIS is a member of the Financial Stability Board (FSB), member of the Standards Advisory Council of the International Accounting Standards Board (IASB) and partner in the Access to Insurance Initiative (A2ii). In recognition of its collective expertise, the IAIS also is routinely called upon by the G20 leaders and other international standard setting bodies for input on insurance issues as well as on issues related to the regulation and supervision of the global financial sector.

Issues Papers provide background on particular topics, describe current practices, actual examples or case studies pertaining to a particular topic and/or identify related regulatory and supervisory issues and challenges. Issues Papers are primarily descriptive and not meant to create expectations on how supervisors should implement supervisory material. Issues Papers often form part of the preparatory work for developing standards and may contain recommendations for future work by the IAIS.

This paper was prepared by the Financial Inclusion Subcommittee in cooperation with the Access to Insurance Initiative and the MicroInsurance Network.

The publication is available on the IAIS website (www.iaisweb.org).

Contents

1. Introduction

1. The International Association of Insurance Supervisors (IAIS), through the Insurance Core Principles (ICPs)[1], provides a globally accepted framework for the supervision of the insurance[2] sector. Its mission is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders[3]; and to contribute to global financial stability.

2. There is a general recognition that enhanced access to insurance services helps reduce poverty, improve social and economic development and supports major public policy objectives such as improving health conditions for the population, dealing with the effects of climate change and food security. Insurance supervisors in emerging markets and developing economies are increasingly looking for an appropriate balance between regulation, enhancing access to insurance services and protecting policyholders. Insurers and intermediaries[4] are seeing the business potential of the low-income population and are offering innovative products and entering into distribution partnerships.

3. To support supervisors in their efforts to deal with these challenges, the IAIS has been working on its "access agenda" since 2006 by way of the IAIS-CGAP[5] Joint Working Group on Microinsurance, succeeded by the IAIS-Microinsurance Network Joint Working Group on Microinsurance, and, since 2009, the Access to Insurance Initiative (A2ii). Prior to this paper, two Issues Papers and one Application Paper have been adopted:

- Issues in Regulation and Supervision of Microinsurance (June 2007): This paper discusses regulation and supervision as well as provides background to microinsurance concepts. The paper also contains a preliminary analysis of the ICPs that were in place at the time and concluded that the ICPs cover the essential aspects. However, when applying these principles in practice the outcomes could be positive or negative for inclusive markets depending on the approach taken whilst still observing the ICPs.
- Issues Paper on the Regulation and Supervision of Mutuals, Cooperatives and other Community-based Organisations in increasing access to Insurance Markets (October 2010): Recommended as a follow-up from the work of the first paper, this paper discusses the key elements of such organisations that are relevant to considering the approach to their regulation and supervision.
- Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets (October 2012): The purpose of this paper is to provide application guidance supporting inclusive insurance markets. It provides examples of how relevant principles and standards can be practically applied. Where enhancing inclusive insurance markets is a policy objective, this document elaborates guidance for supervisors. It is directed at the objectives of implementing the ICPs in a manner that protects policyholders, contributes to local and global financial stability, and enhances inclusive insurance markets.

---

[1] The complete set of ICPs including introduction, Principles, Standards and Guidance can be found on the public section of the IAIS website (http://www.iaisweb.org/ICP-on-line-tool-689)
[2] Insurance refers to the business of insurers and reinsurers, including captives.
[3] The IAIS Glossary defines a "customer" as a "policyholder or prospective policyholder with whom an insurer or insurance intermediary interacts, and includes, where relevant, other beneficiaries and claimants with a legitimate interest in the policy". The glossary does not define "policyholder" although earlier papers had noted that "Policyholders includes beneficiaries".
[4] "Intermediaries" refers to any natural person or legal entity that engages in insurance intermediation. The ICPs do not normally apply to the supervision of intermediaries but where they do, this is specifically indicated in the ICPs, Standards and Guidance (refer to paragraph 9 of the Introduction to the ICPs).
[5] The Consultative Group to Assist the Poor

4. **About the paper.** This Issues Paper on Conduct of Business in Inclusive Insurance is about the fair treatment of customers[6] in inclusive insurance markets. The paper gives an overview of the issues in respect of conduct of business in inclusive insurance markets that affect the extent to which customers are treated fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied. Recognising the increased vulnerability of the typical customer in this market segment and based on the typical characteristics of the business and distribution models that have emerged in inclusive insurance – as described further on in this paper – the objective of this paper is to promote the understanding of these particular issues among regulators and supervisors and other organisations and parties with an interest in this area. This understanding can furthermore inform further initiatives to address these issues in the area of conduct of business as a follow-up to this paper, possibly by developing application guidance on proportionate regulation and supervision.

5. The term "inclusive insurance" is used in this paper in the broad sense of the word, denoting all insurance products aimed at the excluded or underserved market, rather than just those aimed at the poor or a narrow conception of the low-income market. In developing countries, the majority of the population often classifies as un- or underserved. Thus inclusive insurance is a mainstream topic of relevance to the development of the retail insurance market as a whole. While the term "inclusive insurance" is aimed at excluded or underserved markets the term "microinsurance" has been defined as insurance that is accessed by low-income populations, provided by a variety of different entities, but run in accordance with generally accepted practices (which include the Insurance Core Principles)[7]. This paper looks specifically at the low-income or lowers middle income due to specific requirements in term of service and consumer protection.

6. In inclusive insurance the need for providing customer value is particularly relevant. An insurance product in an inclusive insurance market can add value to the private objectives of the customer as well as to the overall public policy objective(s) of the country or region. The public policy objectives of a country – for example social development, food security, dealing with climate change, improving health and education of the population – are thwarted if the insurance products that should play a supporting role in achieving these objectives do not produce the desired outcome. If for example the cover of the basis risk in an index-based agricultural insurance[8] is not well understood and actual losses are not paid, the customer will lose its trust in the product which will also negatively affect public policy objectives such as food security. Or, if payment of claims is taking too long, the insured when coping with the effects of a natural disaster might need to resort to the sale of their assets depriving them of future income or to taking children from school to save money. This would also be at the detriment of public policy objectives. It is therefore essential to provide insurance services that add value in the light of the specific context / living conditions of the inclusive insurance customer.

7. The primary focus of this paper is on the fair treatment of customers which as such belongs to the domain "conduct of business"[9]. However, this paper also touches upon issues that affect the treatment of customers outside of conduct of business in a strict sense, for example in respect of financial integrity, for which sometimes the term "market conduct" is also used. It is however noted that supervisors sometimes use both terms interchangeably.[10]

8. Throughout the paper examples or observed responses have been included. It is important for the reader of this paper to understand that - as this is an Issues Paper

[6] See footnote 3.
[7] See paragraph 1.32 of the Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets
[8] Insurance linked to an index, such as rainfall, temperature, humidity or crop yields, rather than actual loss
[9] See ICP 19
[10] As is also recognised in section 2.2.1 of the Application paper on Approaches to Conduct of Business Supervision and paragraph 11 of the Issues Paper on Conduct of Business Risk and its Management.

providing background information, describing current practices, examples and case studies – these examples and observed response have been included for illustrative purposes only and should not be considered to provide preferred solutions or best practices in addressing the issue(s) concerned.

9. **Structure of the paper**. This Issues Paper is structured as follows: The first part (section 2) gives a description of the features of the inclusive insurance market. This is important as it is essential to understand the setting in which the contractual relationship will exist[11] to gain an appreciation of how the concept of fair treatment of the customer plays out in an inclusive insurance market. This will include the profile of the typical inclusive insurance customer, the country-specific legal framework and roles of customer organisations and insurance associations / authorities, the business and distribution models that are typical for inclusive insurance markets and the digital means of interaction between insurer and policyholder that often characterise inclusive insurance business and distribution models.

The second part (section 3) will subsequently discuss the various elements of the inclusive insurance life cycle and present the issues that have been identified from a conduct of business perspective. The term "life cycle" is used as reference to the specific elements of an insurance product from its development as a product, its distribution, disclosure of information, customer acceptance, premium collection, and claims settlement to the handling of complaints by the insurer.

The paper ends with conclusions and recommendations in section 4.

[11] The relevance of a jurisdictions' tradition, culture, legal regime and the degree of development of the insurance sector as well as of the nature of the customer and type of contract is also recognised in Guidance 19.0.2 and 19.0.3.

2. Features of the Inclusive Insurance Market

10. This section provides an overview of aspects outside the direct relationship between insurer and policyholder that nevertheless affect the overall level of conduct of business protection afforded to them. It considers the unique features of inclusive insurance markets that confront supervisors with conduct of business considerations that differ from more conventional insurance markets. The features outlined here give rise to the issues raised for each element of the product life cycle in the rest of the document, in particular in respect of:

- the inclusive insurance customer's profile;
- the country specific context and conditions;
- the distribution models typical for inclusive insurance; and
- the digitalisation of inclusive insurance transactions.

2.1 The Inclusive Insurance Customer's Profile

11. Low-income customers are generally more vulnerable than higher-income customers because of the deprivations they face as consequence of poverty[12]. Low-income households are also more vulnerable to risk as they are more exposed and have limited access to the whole range of risk mitigating tools[13]. Besides financial exclusion and the lack of access to effective mechanisms of risks transfer, low-income customers lack other basic necessities such as education, employment, housing, and access to justice.

12. In order to illustrate the relevance of conduct of business protection for the customers in inclusive insurance markets, it is important to understand the features of the typical inclusive insurance customer profile.

13. **Low education levels and low insurance awareness**. The low-income population might not always be sufficiently aware or informed about the risks it faces and the basic concept of insurance. Even if they are aware then still lack of knowledge and information may negatively affect decisions. No or low literacy and numeracy is a big issue. Many people simply can't read policy conditions and other written material. Studies consistently find education levels, awareness of insurance in general and understanding of the specific features of insurance in particular to be low. The low-income customer typically has very little, if any, experience with insurance. Customers also often confuse savings with insurance (expecting a return of premium). In addition, their risk mitigation strategies otherwise used can be inefficient and damaging for their economic and social development, as people may get more indebted, not send their children to school, deplete their long-term savings, or sell their productive assets. Also, low income customers will likely have limited experience with insurance contracts, and therefore are unlikely to be aware of their rights and obligations or those of their counterparty and the available mechanisms for seeking redress when they believe that they have been wronged. Customers will therefore not know to whom to turn to complain or to seek enforcement of the contract or generally, how to settle disputes[14].

14. **Low levels of disposable income.** Low-income customers' patterns of income are different from other income segments. Incomes are often seasonal and subject to fluctuation.

---

[12] Drawing on focus group discussions and demand-side survey data analysis conducted as part of access to insurance diagnostics

[13] GIZ, 2013. Discussion Paper: Customer Protection in Microinsurance. Available at: http://www.mfw4a.org/documents-details/discussion-paper-customer-protection-in-microinsurance.html?dl=1

[14] See on financial education: Organisation for Economic Co-operation and Development (OECD). 2011. G20 High-level Principles on Financial Customer Protection. Paris: OECD. http://www.oecd.org/daf/fin/financial-markets/48892010.pdf;
Organisation for Economic Co-operation and Development (OECD). 2013. Advancing National Strategies for Financial Education: A joint publication by Russia's G20 Presidency and the OECD. http://www.oecd.org/daf/fin/financial-education/advancing-national-strategies-for-financial-education.htm.

Disposable incomes are small and trade-off choices have to be made. Cash-flow fluctuations are common, limiting the ability to regularly pay premiums.

15. **Nature of expenditures.** The low levels of income affect the affordability of insurance. Most of the customer's income is spent on basic requirements such as food and shelter[15]. Features of available insurance options are often perceived not to be appropriate to customers' needs, not to be readily available at community level, and not to be affordable, even if perceptions of cost and affordability are not necessarily aligned with actual costs of available product options in the market.

16. **Difficult to reach customers**. A substantial proportion of the low-income population live in rural areas and poorer parts of urbanised areas. It tends to make a living in the informal sector and/or is self-employed. Thus it might be insufficiently covered by state social protection schemes. It is also often out of easy reach of traditional distribution touch-points. These elements challenge distribution to the low-income market.

17. **A lack of trust in insurance providers and negative perception of insurance**. The low-income segment generally has little trust in formal insurance provided by commercial insurers or conventional intermediaries such as banks or brokers. Also culture plays a role in the (mis)perception of insurance, such as beliefs that talking about a risk will cause that risk to happen. Though most respondents in focus group research[16] have not personally had a claims experience, word of mouth from others in the community has a powerful impact. Rumours of delayed claims pay-outs travel fast and claim rejections, even if valid, exacerbate the limited understanding of terms and conditions. The result is that trust in insurance is negatively affected. In some countries specific negative experiences in the past, for example an insurer going bankrupt, continue to shape customer distrust. However, those respondents that do have insurance policies tend to be more positive about it than those who do not, especially if they had a good claims experience.

18. These features suggest that low-income customers are likely to be less financially sophisticated than conventional customers and more difficult to reach and therefore to protect. They are also likely to be more prone to mis-selling or customer abuse. Thus, the need for insurance to provide value for money and engender trust becomes even more pronounced for this segment of the population. All of this underlines the importance of proper conduct of business with regard to disclosure, advice and claims payment, coupled with effective customer redress, to ensure customer protection is effective for inclusive insurance customers.

19. There is however more to it than the application of proportionate conduct of business principles to promote greater access to insurance. Insurance should be seen as an essential element in an optimal financial strategy for the customer. The customers need to be made aware of the risks to which they are exposed and if and how insurance can play a role. For example, funeral insurance may cover the burial expenses but what if the breadwinner of the family deceases? Are there loans to be repaid and how is income for food, health and education arranged? It is not to be said, however, that all these risks need to be covered by insurance. When affected by a disaster various coping mechanisms come into play including donations from neighbours and relatives, reduction of spending or using the prospect of an insurance payment as "collateral" for obtaining formal or informal loans. It is the understanding of these aspects that needs to find its way into for example education of customers, product development, the providing of suitable advice by providers and claims handling.

[15] Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets. Available at: www.iaisweb.org

[16] This paragraph is based on insights from qualitative market research, in the form of focus group discussions, included in various inclusive insurance diagnostic studies, conducted under the umbrella of the Access to insurance Initiative. For more information, see https://a2ii.org/en/knowledge-centre/reports,

2.2 Country specific Context and Conditions

20. **National regulatory framework.** The scope and extent of involvement of the supervisor in conduct of business supervision in a specific jurisdiction is dependent on its mandate as determined by the jurisdictional regulatory framework. This affects the nature and level of customer protection provided by the supervisor. National public policy considerations in respect of the need for conduct of business protection and on the role of the supervisor are fundamental for the establishment of the regulatory framework. These considerations can vary across jurisdictions and could be based on political or economic positions regarding the role and responsibility of the public sector versus those of the "market" or the private sector. At policy level the objective could be to limit involvement of the public sector in the contractual relationships between private parties and leave - within boundaries – these relationships subject to economic market forces. In that case private sector initiatives – for example customer organisations - could fill that void.

21. *Possible roles of the supervisor*. A regulatory framework that provides a conduct of business mandate to a supervisor could have various modalities. The mandate could assign supervisory duties towards insurers at entity level rather than transaction level. This means that the supervisor does not protect individual policyholders directly but rather checks that an insurer in general acts in line with the laws and other regulatory requirements which protect policyholders as a whole so that the insurer's conduct of business leads to fair treatment of customers. In this case the supervisor's activities are aimed at processes, structures or general business practices within the supervised entities rather than at transaction level (individual contracts), although complaints by individual customers could point at an issue within the supervised entities processes and/or structures or business practices.

22. Additionally, the supervisor could be responsible for alternative dispute resolution (ADR). This could take the form of either dealing with customer complaints itself directly or managing / supervising a mechanism or entity that deals with ADR[17].

23. Also, the regulatory framework could give the supervisor responsibilities in the area of financial education of the public[18]. Financial education has become a key pillar of financial reform, a complement to conduct of business and prudential regulation, on which financial sector development can rely. Such recognition has, notably, led to the development of a wide range of financial education initiatives by public authorities, including supervisors, and various other private and civil stakeholders over the past years. At policy level a jurisdiction may have initiated a financial inclusion strategy that includes financial education efforts by the supervisor or other public or private bodies.

24. *Initiatives in practice*. Specific microinsurance regulations date back to the year 2005, when India issued the first ever Microinsurance Regulations. Shortly thereafter, Philippines, Peru and Mexico followed, all providing for microinsurance-related conduct of business clauses, starting with the definition of microinsurance. Other important areas specifically regulated are distribution (intermediary licensing, registration or training), policy documents or certificates, products (covers, simplicity, exclusions, fees), and the related processes and services (disclosure to the customer, commissions, customer acceptance; premium collection, claims settlement, complaints handling and recourse).

25. In the past decade, at least 17 jurisdictions have adopted specific microinsurance regulations, all with a focus on conduct of business. Many of them have been revising and adjusting the initial regulations, and some have even issued a series of complementary regulations to advance the regulatory framework continuously, for example covering alternative dispute resolution. Another 18 jurisdictions are currently developing such a framework. Some jurisdictions have introduced, or are planning to introduce a new tier for a dedicated microinsurance provider.

[17] See section 2.2.6 of the Application paper on Approaches to Conduct of Business Supervision.
[18] See section 2.2.2 of the Application paper on Approaches to Conduct of Business Supervision.

26. **Existence and operations of customer protection associations and authorities.** In some jurisdictions, strong customer protection associations exist. They check and compare insurance contracts, do mystery shopping[19] and challenge insurers. Often national legislation provides these associations with the right to sue insurers on behalf of the customer. Not only the achievements but all relevant court cases, professional opinions, reports etc. are published regularly. Also, customer associations offer seminars on customer topics. In other jurisdictions, customer protection authorities are in charge of monitoring customer relations in general and have the authority to impose administrative sanctions. For inclusive insurance customers, the role of these associations and authorities is particularly important due to the vulnerability described in the previous section.

27. **Contributions of insurance associations.** In some jurisdictions insurance associations may issue "model contracts" for their members. These model contracts are drafted in line with the applicable customer protection legislation in a jurisdiction. Insurance associations can participate in the development of and inform their members about all regulatory developments, including those regarding customer protection.

28. **Functioning of the court system.** Courts serve as a last resort for customers in case their disputes with the insurer/intermediary cannot be resolved out-of-court. This requires that customers are aware of such facilities, dare to approach them, and can afford an attorney and court fees that they need to pay for sometimes even if they win their case. To assure this, many court systems provide legal aid if the relevant party cannot afford the costs but – on a preliminary view – has sufficient prospect of success. In the case of inclusive insurance markets, affordability of court procedures is an issue. Inclusive insurance markets could benefit from alternative approaches such as accessible and low-cost and low-threshold court system or ADR system with mediators who are willing and trained to deal with this type of client.

29. **Conclusion**. The conditions as outlined above often do not hold in markets where inclusive insurance is a mainstream topic. For example, many developing countries may not have a clear conduct of business mandate or the supervisory capacity to fully act out such mandate as supervisory agencies are often new and under-capacitated, plus there typically will not be such strong consumer protection agencies/bodies as discussed here. Also, typically, insurance associations are nascent or even non-existent and face severe capacity constraints. Thus model contracts do not as a rule exist.

30. All of this means that the typical structures for consumer protection and conduct of business are challenged in the inclusive insurance sphere, meaning that the country-specific context and conditions that prevail in many developing countries (where inclusive insurance is most relevant) may reinforce consumer vulnerabilities. This reinforces the imperative for considering conduct of business in the inclusive insurance space. Likewise, the typical distribution and business models and digitalisation often found (described in sections 2.3. and 2.4) strengthen this imperative, as it confronts supervisors with new players, channels and considerations that may not be fully accommodated in the conventional regulatory and supervisory framework.

[19] A tool used to gauge quality of service or compliance with regulation by purchasing a good or service without revealing the test buyer's true identity.

2.3 Distribution features and risks common to inclusive insurance

31. The characteristics of the low-income target market make its customers vulnerable to mis-selling, reduced value of products and customer abuse. These vulnerabilities manifest in different ways, depending on the specific inclusive insurance business model followed.

32. Generally, a business model is defined as the method or means through which a company captures value from its business. This can be based on many different aspects, including how products are designed, priced, marketed and distributed [20]. Similar to conventional insurance a business model within the inclusive insurance space can be defined as a composite of a number of elements:

- The product or service that is underwritten.
- The various parties involved in the insurance value chain and their functions. Importantly, in inclusive insurance the value chain often involves a so-called customer *aggregator*.[21]
- Who the policyholder is (the end-customer, versus another party as master policyholder).
- How and by whom the insurance is underwritten[22].
- Who decides to buy the insurance and how such a decision is made (for example: is it compulsory/mandatory or voluntary, opt-in or opt-out).
- The manner in which the policy is sold to the policyholder, including how information about the policy is communicated to the policyholder.
- The manner in which the premium is paid and collected.
- The manner in which the claims are paid (claims payment systems).

33. Some of these elements relate to **distribution**. Distribution[23] includes the channels and actions through which an insurance company sells a policy to the policyholder as well as services the policy on an ongoing basis. Alternative modes of distribution are of particular relevance in the inclusive insurance market and a core consideration in distinguishing between different inclusive insurance business models. Due to low premiums and thus low margins, the emphasis within inclusive insurance falls strongly on reducing distribution costs. Furthermore, the relative difficulties in reaching the lower income market due to limited infrastructure, poor connectivity, low education levels and limited experience with insurance underline the importance of distribution innovation in inclusive insurance.

[20] Source: http://lexicon.ft.com/Term?term=business-model

[21] Aggregators can be defined as entities that bring together people for non-insurance purposes (for example retailers, service providers, utility companies, membership based organizations or civil society organisations) and that are then utilised by insurers, with or without the intervention of agents or brokers, to distribute insurance and, depending on the model, fulfil additional functions such as administration and/or claims pay-out.

[22] For example: on a group or individual basis; by a commercial insurer, a mutual, cooperative or other community-based group, or in-house on an informal basis by for example a Micro Finance Institution or funeral service provider

[23] Note: the term distribution is used interchangeably in this paper with that of *intermediation*, which is defined in the IAIS glossary as: The activity of soliciting, negotiating or selling insurance contracts through any medium. Where: “Solicit" means attempting to sell insurance or asking or urging a person to apply for a particular kind of insurance from a particular company for compensation. "Negotiate" means the act of conferring directly with, or offering advice directly to, a purchaser or prospective purchaser of a particular contract of insurance concerning any of the substantive benefits, terms or conditions of the contract, provided that the person engaged in that act either sells insurance or obtains insurance from insurers for purchasers. "Sell" means to exchange a contract of insurance by any means, for money or its equivalent, on behalf of an insurance company.”

34. An analysis by the A2ii of inclusive insurance providers, products and channels across 25 countries[24] in 2014 identified **eight different business models**[25]:

Business model name	**Definition**	**Example**
Individual sales	The individual sales model is the classic model for insurance sales, and is found within the inclusive insurance space as well as in the conventional insurance market. Sales are made on an individual basis through direct interaction between the customer and an agent or broker or insurer directly. This can include both outbound and inbound call centres, so does not necessarily entail face-to-face interaction. However, there is no customer aggregator involved.	Agent, broker or direct sales found in most countries
Proxy sales	The key descriptor of the proxy sales model is that the insurance product is not sold directly by the insurer or by an insurance broker or agent, but rather by a non-insurance aggregator to their existing customers. The policy is marketed with the sale of another product and can be sold as either an embedded product [26] or by cross-selling [27]. The insurance product is actively sold, but the salesperson works for the aggregator and the insurance is sold in addition to, or supplementary to, the primary good that they sell. The primary customer relationship is therefore not insurance-based and the insurer reaches the customer through the aggregator. The insurance will usually, though not necessarily always, be white-labelled under the brand of the aggregator. The employees or contracted agents of the aggregator can be regarded as a 'proxy sales force' for the insurer.	Casas Bahia (white goods retailer chain) Brazil, which sells products underwritten by various insurers, including extended warranties. The partnership between CODENSA, the largest electricity distributor in Colombia, and Mapfre Insurance.
Compulsory sales	The compulsory sales business model refers to insurance products, for example third party liability insurance for vehicles and social health insurance schemes, that are required	DPVAT third party motor vehicle liability insurance Brazil

[24] Source: Access to Insurance Initiative, 2014. Evolving Microinsurance Business Models and their Regulatory Implications | Cross-country synthesis note 1. Available at: https://a2ii.org/sites/default/files/reports/2014_08_08_a2ii_cross-country_synthesis_doc_1_final_clean_2.pdf

[25] Note that this is not necessarily an exhaustive list, nor is it the only way to classify the shared features found across the study into different business models. The purpose of this classification is to provide an illustrative grouping and description of the features found across various inclusive insurance examples, in order to lift out implications for regulators and supervisors (the topic of section 3.2).

[26] Defined for the purposes of this paper as insurance linked to/included with the sale of another product or service, for example credit. The insurance is mostly, but not necessarily, compulsory for customers who purchase the service or product.

[27] Defined for the purpose of this paper as take-up, on a voluntary basis, by an existing customer of a particular channel of an insurance product. Thus insurance is sold as a standalone product, but marketed with another product.

Business model name	Definition	Example
	by regulation for certain categories of citizens. Compulsory insurance may be partially subsidised by the state, but citizens are required to pay at least part of the premium. It should be distinguished from embedded insurance where a commercial party, for example a credit provider, requires the customer to buy insurance as a condition to accessing the credit, or auto-enrolment insurance where insurance is automatically purchased for the end-customer at the behest of another party (such as a mobile network operator or the state), and the entire premium is paid by such party on behalf of the end-customer (see below).	National Health Insurance Fund Tanzania
Group decisions	In the group decision model, the members of a group are insured by virtue of being members of a pre-existing group, which negotiates the insurance on behalf of members, rather than through an individual decision. The group decides collectively to obtain insurance. By insuring an existing group, the insurer can reach a large number of customers through a single interaction. Group rather than individual underwriting is applied, meaning that no evidence of insurability has to be submitted on an individual basis, and the policies are typically administered through the group's infrastructure. Both of these elements can reduce costs. The insurance policy may be universal cover by virtue of membership to the group, or individual opt-in. This model is distinguished from the local self-help model (see below) in that an insurer, rather than the group itself, conducts the underwriting.	South African Democratic Teachers' Union, South Africa, which utilises an external company (Shimba Financial Consultants), to negotiate financial services, including various compulsory and voluntary insurance options, on behalf of members Shanxi village model – a uniquely Chinese model whereby group insurance is sold through village committees, pioneered by China Life's Jinzhong Branch
Local self-help *(the MCCO[28] - model)*	The local self-help model refers to a group that collectively pools its own risks, as opposed to engaging the underwriting services of an insurer. This can be in the absence of an appropriate offering by the corporate insurance market, or due to preferences for local community solidarity expressed in risk-pooling as well as social support. The group collects the premiums from its members and pays out the claims itself.	Mutual Benefit Associations in the Philippines

[28] Mutuals, cooperatives and community-based organisations

Business model name	Definition	Example
	Such models can include licensed insurers operating on a mutual model, or informal schemes. There is also a distinction between local self-help initiatives which only provide insurance to members and those which also offer insurance to non-members.	
Auto-enrolment	The auto-enrolment model is characterised by the fact that a third party [29] purchases insurance on behalf of a pre-determined group of people. The insurance is underwritten by commercial insurers and the premiums are paid directly to the insurer by the third party. The contractual relationship within the auto-enrolment model is usually between the third party and the insurer, rather than between the end-customer and the insurer. This model has two separate embodiments: • *State-provided*: Where the state subsidises insurance on behalf of a defined group of people. A public procurement process is normally followed to appoint an insurer, unless a state-owned insurer is used • *Loyalty benefits*: Where a provider of retail services such as a mobile network operator (MNO) [30] or bank purchases insurance for its customers as a loyalty benefit.	*State-provided*: Rashtriya Swasthya Bima Yojana (RSBY) India – a fully-subsidised national health insurance scheme, underwritten by various insurers. *Loyalty benefits*: Tanzania's National Microinsurance Bank (NMB) offers automatic free funeral insurance, underwritten by African Life, to all active holders of the NMB Personal Accounts. Various "freemium" loyalty insurance schemes by MNOs, for example the pioneering case of Tigo Ghana.
Passive sales	In the passive sales model, the insurer relies on the customer to actively buy the insurance. The potential customer uses a passive sales outlet, such as the internet or a supermarket shelf, provided by the insurer to purchase the product. The insurer promotes the product through brochures or mass market advertising. The onus is upon the customer, rather than a salesperson or intermediary, to inform him/herself about the product as there is no individual communication prior to the sale. There is an individual but not an active in-person sales transaction. There may be communication following the sale, for example where a call centre contacts the customer to confirm their details and	Pep (a clothing retailer chain) selling insurance products by Hollard Life off the shelf in its network of stores in South Africa.

[29] A "third party" is defined for the purpose of this paper as a person or organisation that is neither the insurer nor the end-customer.

[30] Where it is often known as the "freemium" model. Note that not all MNO models are characterised by auto-enrolment, with such schemes increasingly reverting to explicit opt-in by the customer.

Business model name	Definition	Example
	complete the transaction.	
Service-based sales	The service-based sales model is derived from underlying demand for a specific service. The customer wants to secure a service that they will need in future (for example a medical service or a funeral) and, in order to be able to afford it, takes an insurance policy sold by the provider of the underlying service, for example a hospital. The primary demand is therefore for the underlying service, and the demand for insurance is derived from it. The entity that sells the insurance is the same one that provides the underlying service. No insurance intermediaries are involved in the distribution of the insurance. Unlike in the local self-help model, the insurance may be underwritten by the service provider itself (often informally) or by an insurer. A further important determinant of this model is the nature of the risk retained by the provider. Only initiatives which offer guaranteed benefits to customers are considered as microinsurance and therefore are classified as service-based sales models.	Grupo Vila, Brazil - a large, family-owned private cemetery and funeral home group of businesses operating in three states in the Northeast of Brazil that provides family funeral plans as part of its service package.

35. Based on country diagnostics by the A2ii it has become clear that the variety in these models has a bearing on the relationship between insurer and policyholder and affects the treatment of the insured. Among these models, those that have achieved the greatest scale in inclusive insurance markets to date are often characterised by a complex value chain, with multiple discrete players (including an administrator[31], a broker or agent, a customer aggregator and a payments platform) that can fulfil a range of potential functions. **Figure 1** below illustrates the potential links in the value chain:

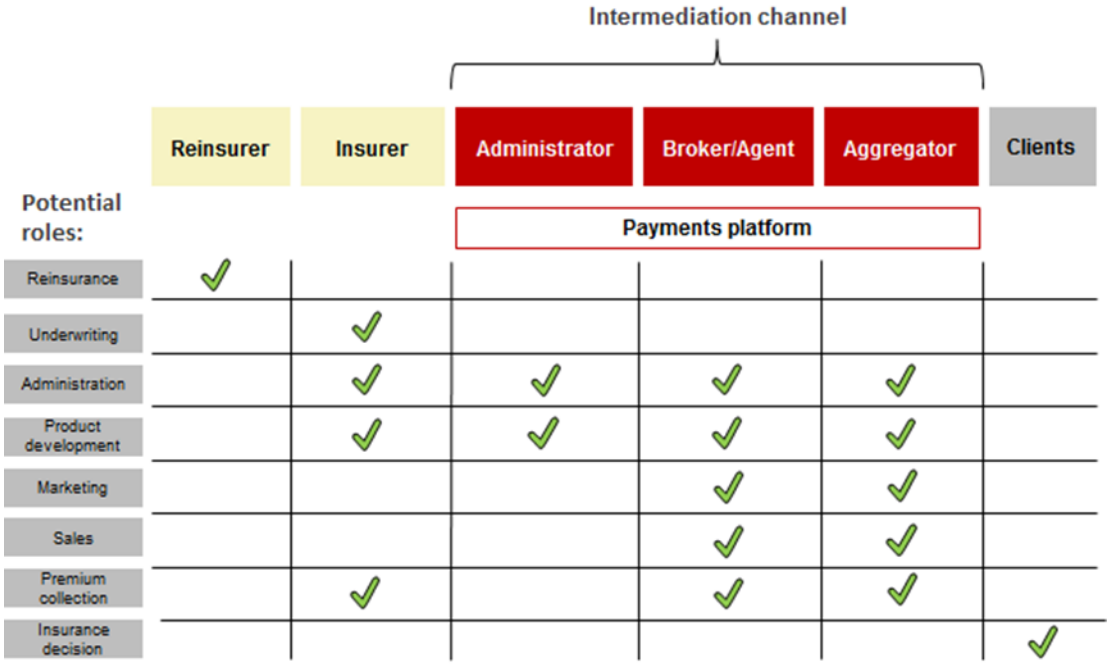

Figure 1: Potential value chain elements in inclusive insurance models

Source: A2ii Cross-Country Synthesis Note 1, 2014

36. Where such a longer value chain is found, it entails a greater degree of separation between the insurer and the customer than a model that just uses a broker or agent. In these cases a customer's direct interaction is often with the aggregator rather than with the insurer or broker. The administration and payments infrastructure and process may be provided by the aggregator or by separate technical service providers. Where the latter is the case, this typically calls for a service level agreement between the insurer, aggregator and various service providers.

37. The degree of separation between the insurer and the insured, the variety of entities involved (some of which may be under the primary jurisdiction of another, non-insurance regulatory authority – for example the banking or telecommunications regulator), and the skill set of sales persons found in such models may reinforce the typical target market features found in inclusive insurance markets (as discussed in section 2.1). These may result in heightened and distinctive risks to customer protection in inclusive insurance markets, as these increase the possibilities for exploitation, distorted incentives and misrepresentation. With the exception of prudential risk[32], these risks to consumer protection are part of the

[31] An administrator means a person or entity which has a mandate from an insurer to do administrative work, notably claims administration, on its behalf.
[32] See section 2.1 of the Issues Paper on Conduct of Business Risk and its Management where the linkage between conduct and prudential risk is described.

overarching concept of conduct of business risk[33]. To enable a better understanding of the nature and impact of risks to consumer protection in the inclusive space and as these risks are the result of different risk drivers found in inclusive insurance market contexts these risks have been defined as subsets of conduct of business risk in the box below.

Typical risks found in inclusive insurance business models

Six common risks[34] can be identified that have a distinct manifestation in inclusive insurance distribution:

- *Prudential risk*[35] is the risk that the insurer as risk manager is not able to keep its promises and deliver benefits to the beneficiaries. Prudential risk derives largely from the features of the insurer's operations and management and therefore a lack of capacity of the insurer and a lack of regulation and oversight regarding the management of insurers heightens prudential risk.
- *Aggregator risk* is the risk of reduced customer value and inappropriate products being sold to customers when an insurer accesses the aggregated customer base of a non-insurance third party to sell its products through that channel.
- *Sales risk* is the risk that the salesperson will misrepresent the product to the customer or sell a product that the customer does not need. Reduced customer value or inappropriate product choice can also be the result of sales risk.
- *Policy awareness risk* is the risk that the insured is not aware that he or she has insurance cover and is therefore unable to lodge a claim should the risk event occur. The manner in which insurance is sold through certain inclusive insurance business models can heighten the risk that policyholders are unaware that they have insurance coverage. There is also the risk that the insured is not fully aware of the terms and conditions of the insurance or does not know how to make a claim.
- *Payments risk* is the risk that the premium will not reach the insurer, that the premium will not be paid on the due date or that the cost of collecting the premium is disproportionate. Payments risk means there is a heightened possibility that premiums are not regularly received by the insurer.
- *Post-sales risk* is the risk that customers face unreasonable post-sale barriers to maintain their cover, change between products, make enquiries, submit claims, receive benefits or make complaints. It therefore refers to the risk of poor service and the potential disincentive for insurers and intermediaries to be efficient in claims processing and service provision.

See the annex for more details.

[33] Paragraph 11 of the Issues Paper on Conduct of Business Risk and its Management indicates that Conduct of business risk can be described as "the risk to customers, insurers, the insurance sector or the insurance market that arises from insurers and/or intermediaries conducting their business in a way that does not ensure fair treatment of customers."

[34] Note that inclusive insurance initiatives may also be subject to other risks that are not distinctive to the inclusive insurance market. Similarly, the risks listed here are not unique to inclusive insurance. For example: prudential risk is universal across insurance, as is payments risk, policy awareness risk or post-sales risk. The discussion here centres on those risks that are particularly manifest in inclusive insurance markets or that take on a distinct nature in inclusive insurance models, as identified in the 2014 Access to Insurance Initiative cross-country synthesis exercise.

[35] Note that, while prudential risk is present in all insurance models and by no means unique to inclusive insurance, it manifests in specific ways in inclusive insurance business models and therefore warrants discussion.

38. These market features and risks confront regulators and supervisors with new considerations in conduct of business that are often not fully addressed in conventional regulatory and supervisory frameworks. Section 3.2 considers the distribution-related issues arising in the inclusive insurance market and the implications for regulators and supervisors.

2.4 Digitalisation of inclusive insurance transactions

39. Over the past years technical innovations have emerged and been put into use to overcome barriers to access in insurance more than in conventional insurance markets[36]. These innovations help make insurance and other financial products and services more broadly accessible and economically viable. In some regions, insurance supply has grown considerably based on mobile phone supported distribution or insurance driven by mobile network operators and other aggregators. These approaches are called "mobile insurance".[37]

Tigo Family Care Insurance in Ghana - An example of life insurance coverage offered via a digital transactional platform[38]

Tigo Family Care Insurance launched in 2010. The insurance product, which is underwritten by Vanguard Life Assurance, is provided by the MNO Tigo to its customers without charge as a loyalty product for Tigo's prepaid airtime package. Tigo introduced the product to reduce the significant "churn" (i.e., movement of pre-paid mobile phone customers from one provider to another). Customers can double their coverage by paying a premium using Tigo airtime.[39]

Between the launch of this innovative product and December 2013, the total number of insurance policy holders in Ghana increased from 720,000 to 3.6 million, including 1.3 million customers insured through Tigo.

40. Mobile insurance is only one example of a development that is also referred to as "digital financial inclusion" and which is described as the use of digital financial services to advance financial inclusion[40]. Other examples include debit cards and point-of-sale (POS) terminals. The GPFI[41] stated that "digital financial inclusion involves the deployment of digital means to reach financially excluded and underserved populations with a range of formal financial services suited to their needs, delivered responsibly at a cost affordable to the customer and sustainable for the providers"[42]. In GPFI terminology the use of mobile phone technology would be considered as a "digital transactional platform" (that) "enables a customer to make or receive payments and transfers and to store value electronically through the use of a device that transmits and receives transaction data and connects - directly or through the use of a digital communication channel - to a bank or non-bank permitted to store electronic value".

[36] See also paragraph 112 of the Issues Paper on Conduct of Business Risk and its Management

[37] Report of the 2nd A2ii – IAIS Consultation Call Technical innovations in insurance distribution and regulatory implications, 24 April 2014; https://a2ii.org/sites/default/files/field/uploads/notes_2_consultation_call.pdf

[38] Source: Issues Paper Digital Financial Inclusion and the Implications for Customers, Regulators, Supervisors and Standard---Setting Bodies issued by the Global Partnership for Financial Inclusion. http://www.gpfi.org/publications/digital-financial-inclusion-and-implications-customers-regulators-supervisors-and-standard-setting

[39] Tigo's digital transactional platform is capable of having premiums paid with mobile money (as opposed to airtime), and this will likely be permitted in the future. Claims are paid out only to a Tigo wallet.

[40] Issues Paper Digital Financial Inclusion and the Implications for Customers, Regulators, Supervisors and Standard---Setting Bodies issued by the Global Partnership for Financial Inclusion. http://www.gpfi.org/publications/digital-financial-inclusion-and-implications-customers-regulators-supervisors-and-standard-setting

[41] Global Partnership for Financial Inclusion; an inclusive platform for all G20 countries, interested non-G20 countries and relevant stakeholders to carry forward work on financial inclusion, including implementation of the G20 Financial Inclusion Action Plan, endorsed at the G20 Summit in Seoul in December 2010.

[42] See the footnote 40

EcoLife in Zimbabwe – example of a failure in a mobile insurance scheme[43]

EcoLife was a partnership between Econet Wireless (the largest MNO in Zimbabwe), First Mutual Life (an insurer in Zimbabwe) and Trustco (a third party technical service provider based in Namibia). EcoLife reached 20% of the adult population within 7 months of launch, but due to a dispute between two of the non-insurance entities, Trustco and Econet, the scheme was discontinued overnight. In undertaking a survey of the discontinued customers of EcoLife, 63% ruled out the use of similar products in future, 42% were dissatisfied with insurance and 30% felt there were better ways to protect against future problems than insurance. Considering the product had reached 20% of the adult population, the impact was significant.

42. The potential for scale in mobile insurance brings significant opportunity to increase financial inclusion as demonstrated by several mobile insurance 'sprinters'. For example, Tigo Ghana reached almost one million lives in 12 months, Airtel Zambia reached an estimated two million adults at launch and Telenor Pakistan reached over a million lives in six months.

43. Mobile-phone technology can play a role in various stages of the insurance product life cycle[44]. It can play a role in the enrolment of policyholders, premium collection, claims processing and renewals. At the enrolment stage mobile phones can process some or all of the customer and other details needed. This could also be carried out by the agent. In some cases additional paper information or a non-digital signature needs to be arranged separately. As part of the enrolment photographs can be taken by mobile phone – for example of livestock – and transmitted to the insurer. As to the premium collection often payment takes place through the airtime of the customer, or through a mobile money account accessible via a mobile phone referred to as "mobile wallet" allowing non-cash payments[45]. In respect of claims processing the mobile phone can be used to make the claim and – through photographs – provide proof of loss. In index-insurance there can even be a link with other technological developments such as weather stations and satellites as is described in the next box.

For Kilimo Salama, the claims payment is linked to an indexed parameter. At the time of purchasing the insurance product, farmers decide on the automated weather station that is closest to their land and their policy is based on the parameters recorded at that weather station. Farmers' phone numbers are collected at the time of the policy purchase. When that parameter is triggered (based on weather station data), all farmers' phone numbers that are linked to that weather station receive a pay-out directly via M-Pesa. The farmers receive a confirmation of their payment via SMS. If the farmer does not have a mobile phone, then the dealer through whom the insurance was purchased receives the pay-out and passes it on to the farmer. The dealer provides a physical receipt to the insurer to document the pay-out to the farmer.

Tata AIG uses a mobile phone application to approve and settle claims for its cattle insurance product. Through an application developed especially for claims, the agent sends photographs of the dead animal to the central server. The central server sends an

[43] Source: Report of the 2nd A2ii – IAIS Consultation Call Technical innovations in insurance distribution and regulatory implications, 24 April 2014;
https://a2ii.org/sites/default/files/field/uploads/notes_2_consultation_call.pdf

[44] See: Microinsurance Innovation Facility, Mobile Phones and Microinsurance, Microinsurance Paper 26, November 2013

[45] The terms "digital wallet", "mobile wallet," "e-wallet," and "electronic wallet" are sometimes used to refer to this ability to carry, access, and use value stored in or via a digital device. When issued or distributed by an MNO, this stored value is often referred to as "mobile money" (source: Issues Paper Digital Financial Inclusion and the Implications for Customers, Regulators, Supervisors and Standard---Setting Bodies issued by the Global Partnership for Financial Inclusion)

email to the claims team with the on-the-spot survey report for the customer immediately. Previously, it used to take up to 20 days for the documentation and survey report to reach the claims team. Claims assessors compare the photographs with those taken at the time of enrolment. Specific features like the distance between the horns, or coloured patches on the skin are compared to verify the identity of the animal. Once the claim is approved, confirmation is sent to the customer by SMS. This process has reduced the claims turnaround time to 6 days from about 30 days earlier. However, the biggest challenge currently is ensuring that the assessors are comfortable with the process. There is a need to have the software in the local language, so that there is better understanding in the implementation phase.[46]

44. Mobile-phone technology can also be an important instrument for data management and analysis. Customer and premium details can be stored on the mobile phone of the agent and then transmitted to the server of the insurer. The mobile phone user data can also inform the customer profile of the insurer.

45. According to the Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets innovations in technology can be required and should be permitted in regulation and supervision to overcome barriers to access while protecting the policyholders[47].

46. These developments come with certain challenges. The customer will need to understand and be able to perform the required (trans)actions by mobile phone. Where literary and numeracy are an issue customers may trust others, for example the agent, to perform the necessary actions creating a risk of abuse. There are also privacy and cybercrime risks. Large inclusive insurance schemes using modern digital means of communication quickly reach millions of people. Data leakage and misuse can take a very large scale very quickly. Moreover, low income customers are often uninformed about the importance of data protection, potential of abuse etc. Offerings via mobile phone might give opportunity for misinformation to the customer if the (correct) product information is not properly disclosed.

47. Ensuring the proper quality of agents through training is also a point of attention, even more so if there is a high turnover in agents. Where there is no or limited face-to-face contact between customer and agent the risk of misuse or misinformation is exacerbated.

48. For the insurer reliance on a digital network will create various IT-related risks. The computer server capacity should be such that the insurer can manage and process the volume of data entered into the system without negatively affecting the continuity of the system. Also, the use of third party providers to which the development, operation or maintenance of the IT systems has been outsourced should be properly managed. Furthermore, the integrity of the system should be safeguarded against any forms of cybercrime, including malware.

49. The use of mobile phone technology in insurance will likely affect multiple supervisors. One or more insurance supervisors are involved in respect of the prudential and conduct of business aspects of the insurance business. Regarding payments also banking supervisors and/or authorities responsible for oversight of the payment systems will have a responsibility. The use of mobile phone technology and digital networks will entail the involvement of telecom supervisors/regulators. These categories of supervisors and regulators will need to coordinate and cooperate to the greatest extent possible to avoid initiatives that unnecessarily interfere with and harm the interests of the customer.

[46] Source: Microinsurance Innovation Facility, Mobile Phones and Microinsurance, Microinsurance Paper 26, November 2013, p. 9

[47] Paragraphs 3.2 and 3.3 of the Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets

50. Supervisors need to keep up with the speed at which technical innovations in insurance distribution are being deployed.

3. The Inclusive Insurance Product Life Cycle

51. Following the description of the features of the inclusive insurance market in the previous section, this section presents the issues that have been identified from a conduct of business perspective for each of the elements of the inclusive insurance product life cycle. The term "life cycle" is used to refer to the passage of an insurance product from inception to conclusion; it includes the following stages: development of the product, distribution, disclosure of information, customer acceptance, premium collection, claims settlement and the handling of complaints by the insurer.

3.1 Product Development

52. Fair treatment of customers encompasses achieving outcomes such as developing and marketing products in a way that pays due regard to the interests of customers[48]. Although the group of inclusive insurance customers is very heterogeneous, its commonalities require particular attention at the inception stage of a new insurance product, with a view to ensuring fair treatment of the customer. This applies in particular but is not limited to:

- Covered risks - Are the risks being covered relevant to the target market?
- Terms and Conditions – Are the terms and conditions appropriate for the customer profile?
- Pricing - Is the product appropriately priced and structured for the premium paying capacity of the customer?

53. Various initiatives have emerged to address these issues. The Microinsurance Centre promotes for example the principle that every microinsurance product needs to be S.U.A.V.E. i.e. simple, understood, appropriate, valuable and efficient.[49] In various jurisdictions the supervisors have been made responsible for product oversight as a means to achieving the regulatory objectives in increasing access to insurance. The role of the supervisor in respect of product oversight in these instances is to control the launch of products by overseeing that they meet certain standards or parameters and offer appropriate value to customers[50].

54. **Covered risks.** Without research into the requirements of the specific target market, as would be the case when product design is supply driven, the product is less likely to meet the needs and cover the risks relevant to the target market and more likely to give rise to sub-optimal customer protection and value, to lead to mis-selling or customer abuse. Whether product design is demand or supply driven will give rise to differing customer protection concerns. For example, when consumer goods are purchased the supplier sells insurance against loss or damage of that good or for an extended warranty. This type of attached sales products are often offered to generate revenues for the retailer rather than address the needs of the customer.

55. It is important for supervisors to be aware that insurers may oblige customers of certain services or products to purchase linked insurance. In inclusive insurance this is for instance the case with credit life insurance. Due to the compulsory nature of these products, the value offered to the customer may frequently be of secondary concern to the provider, with the product primarily designed to mitigate the risk of the service provider rather than the

[48] Guidance 19.2.4; see also paragraph 75 onwards of the Issues Paper on Conduct of Business Risk and its Management

[49] Microinsurance product development for microfinance providers, Microinsurance Centre and the International Fund for Agricultural Development, October 2012, p. 14.; http://www.ifad.org/ruralfinance/pub/manual.pdf

[50] For more information see: Report of the 5th A2ii – IAIS Consultation Call, Product Oversight in Inclusive Insurance, 28 August 2014; https://a2ii.org/sites/default/files/field/uploads/notes_5th_iais-a2ii_consultation_call_product_oversight_in_inclusive_insurance_0.pdf

customer or with the provider just making use of a cross-selling opportunity. Whilst supervisors will aim to protect the value offered to customers through compulsory products, they also need to recognise the important role such products play in developing a nascent inclusive insurance or credit market.

Observed response(s) to the indicated issue:
A number of jurisdictions require that customers be given a choice of insurance provider when required to buy mandatory embedded cover. Specific conduct of business and disclosure requirements may also apply to the intermediation of compulsory products.

Regulation in Peru provides contract conditions for credit/mortgage life insurance, specifying the obligations of the financial company to accept the insurance that the customer chooses when it complies with established policies. Also, the client is free to decide to replace the policy during their term by another of the same or better features, being that if the premiums have been financed, the customer is entitled to a refund of future interest payments.

56. **Combination(s) of cover offered** – Sometimes insurance is sold together or as a package with other financial or non-financial products, for example with banking or credit products or with consumer goods such as household equipment and furniture or air tickets. This concept is known as bundling[51]. Also, the term "embedded" is used to indicate insurance covers tagged along with other products[52]. The differentiation between life, non-life and health products, and to what extent different elements may be bundled in one policy, as well as the conditions for embedded products, are further important product-related issues for supervisors in inclusive insurance markets. Below, each is discussed in turn.

57. *Demarcation between life and non-life lines in the case of bundled products*[53] - A statutory demarcation between the provision of life and asset/general insurance can preclude the provision of cross-over products with both a life and a non-life element, unless different insurers underwrite different components or composite insurers are permitted. The demand for asset insurance is typically very low in the low-income market. A composite product containing funeral cover and asset insurance, for example, is likely to have more of an allure to customers than a free-standing asset insurance product. Hence the distribution of non-life policies to the low-income market is likely to be more feasible if sold in one offering with life components. However, in countries with different prudential requirements for life and non-life products (for example, more reserves have to be maintained for longer term life products than for non-life products) the bundling of a life and a non-life product gives rise to regulatory challenges. In response, regulators may set certain product parameters that both life and non-life microinsurance products need to adhere to in order to ensure that they are underwritten on the same basis.

Observed response(s) to the indicated issue:
The Microinsurance Regulations in India allow bundling of life and non-life components only if life and non-life insurers underwrite the respective components and if there is clear separation of premiums and risk between the components.

Similarly, in the Philippines (Insurance Memorandum Circular 1-2010), bundled microinsurance products in life and non-life may be provided by insurers (commercial and cooperative) and mutual benefit associations as long as each component is underwritten separately.

[51] See paragraphs 43 and 76 of the Issues Paper on Conduct of Business Risk and its Management
[52] See paragraph 1.23 of the Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets
[53] See paragraph 3.12 onwards and 4.41.4 of the Application Paper on Regulation and Supervisions supporting Inclusive Insurance Markets.

The statutory demarcation between general and life insurance in countries such as Zambia, Tanzania and South Africa precludes the offering of bundled products. Proposed microinsurance regulations in South Africa and Zambia aim to address this by allowing bundled products where the life and non-life covers have similar risk profiles.

58. *Classification of health insurance* - How health insurance is classified is a particularly relevant issue in a number of countries. For example, where regulation excludes health insurance from the ambit of insurance or is not clear on the definition, it may create a grey area for informal operators outside the jurisdiction of the insurance supervisor. In other instances, strict demarcation between the business of medical schemes and that of other insurers, coupled with prescribed minimum benefits for medical schemes, may reduce affordability and inhibit innovation in the low-income health insurance space. The grey area in the case of the supervision of health insurance could not only occur if medical services firms are unregulated or unsupervised but also if there is an additional supervisor in this area.

Observed response(s) to the indicated issue:

In the Philippines private insurance companies are allowed by the Insurance Commission to offer health insurance. Many companies are currently offering hospital cash benefits (some of which are approved as microinsurance products) and HMO-type health insurance products. In South Africa there is a clear demarcation between the business of a medical scheme and health insurance, with implications for microinsurance-relevant products such as hospital cash plans that provide a pay-out to the customer with a medical trigger, but not related to the underlying medical cost.

For example, Peru has a national supervisory authority of entities providing health services and medical assistance insurance, which regulates matters other than solvency and who is in charge of solving particular customer disputes;

59. *Insurance bundled with non-insurance* - Examples include credit life insurance, or funeral or personal accident insurance embedded free of charge in a savings product or deposit account, a mobile network subscription (the latter is also known as loyalty insurance) or an insurance attached to the purchase of consumer goods. The non-insurance element of the embedded insurance cover is not supervised for insurance purposes and the insurance supervisor would normally not have jurisdiction over the delivery of this underlying product or service. However, it can have significant implications for the insurance policy. As the insurance cover is the secondary product it may offer limited value to the customer as the product design would frequently be supply driven and may, as in the case of credit life, be designed to meet the needs of the lender (supplier, or distributor,) rather than the customer. The interests of the distribution channel – the product in which the insurance cover is embedded – can dominate over the interests of the insured. The embedded nature of the insurance also increases the risk that customers may be unaware of the insurance cover as they are likely primarily purchasing the non-insurance product with the insurance cover automatically added.

60. **Terms and Conditions.** Are the terms and conditions of the product appropriate for the customer profile? A term that is excessively short can exacerbate policy awareness risk – where the insured individual is unaware that they have the insurance or that it needs to be renewed. Very low claims ratios have been observed in some massively provided accident policies, which run for a few weeks only. Shorter terms can also increase the prevalence of adverse selection, in turn increasing the prudential risk to the insurer itself. On the other hand, restricting the maximum term length (as is the case of some microinsurance specific legislation such as proposed in South Africa and existing in India) and the need for frequent renewal that it entails may also help in creating awareness of the policy. Furthermore, a

relatively short term provides customers with the flexibility to change insurers and/or products if they are unhappy with the value offered.

61. In order to ensure that products are appropriate to inclusive insurance customers' needs, supervisors may require products to be simple in design, may restrict allowable exclusions, or may place restrictions on waiting periods or other product features. However, where regulators are too detailed in their prescriptions, it may restrict the scope for innovation and discourage insurers from registering products. A proper balance is needed to foster more access to insurance.

Observed response(s) to the indicated issue:

Microinsurance product parameters have been defined in various countries for various reasons: some define a monetary benefit or premium ceiling to ensure that microinsurance products are designed for the low-income target market or to limit the prudential risk of dedicated micro-insurers providing only these products. This is for example the case in the Philippines, India and South Africa (proposed). Some impose qualitative product restrictions. For example, Peru and Pakistan and a number of other countries have prohibitions on the number or kind of exclusions, requiring these to be minimal, or in the case of Pakistan, precluding exclusions for pre-existing conditions unless the insurer can justify the exclusions to the supervisor.

62. *Group policies* - Groups offer a pre-existing channel through which insurers can offer insurance to a large number of customers whilst also using the group's infrastructure to reduce administration costs. However, group policies may not be optimally designed for all the individuals within the group and insurers may try to exclude certain more risky group members from the cover. Also, individual members may not be informed or aware of the existing cover. Hence, supervisors may include customer protection rules or mechanisms specifically for group policies in their regulatory frameworks, such as the requirement for a certificate in group policies.

Observed response(s) to the indicated issue:

India's Microinsurance Regulations state that "every insurer shall issue insurance contracts to the group micro-insurance policyholder in an unalterable form along with a schedule showing the details of individuals covered under the group, and also issue a separate certificate, to each such individual evidencing proof of insurance, containing details of validity period of cover, name of the nominee, and addresses of the underwriting office and the servicing office, where both offices are not the same."

South Africa's proposed Microinsurance framework stipulates that:

- "The individual persons paying premiums under the policy will be deemed by law to be the policyholders, rather than the administrator or any other entity on behalf of the individual policyholders
- The individual policyholders will have the right to cancel their cover at any time
- The administrator (who manages the policy on behalf of the group) must enter into a written agreement with the insurer setting out the terms of the agreement
- The administrator must be licensed as a Financial Services Provider in terms of the Financial Advisory and Intermediary Services Act or must be a representative of the insurer within the terms of that Act."

63. *Treatment of benefits in-kind* - Allowing benefits-in-kind may increase the value of the insurance to the customer. For example, in the case of funeral policies an in-kind benefit

means that the beneficiary is not required to organise some or any funeral services. The insurer may also be able to source benefits-in-kind more cheaply than an individual would. However, allowing insurers to offer benefits-in-kind also opens up the opportunity for the insurer to provide benefits below the insured value. Where the conditions for providing benefits-in-kind are not regulated, customers may hence be vulnerable to abuse.

Observed response(s) to the indicated issue:

South Africa requires customers to be given the option of a cash pay-out where benefits are provided in-kind.

64. **Pricing.** Are products appropriately structured and priced for the premium payment capacity of the target market? A further element to consider, linked to the term of the policy, is how premium payments are structured and how flexible they are: are they one-off up-front or regular transactions? Ideally premium structures should be designed based on the customers' individual income streams. Customers with lumpy and irregular incomes, such as small-scale farmers who receive earnings only once or twice a year after harvest, may benefit from the opportunity to pay a one-off premium. However, for most low-income individuals, a one-off premium payment may be an excessively high capital requirement. Indeed, those who earn an income through informal trading or piece work may not even find monthly premium payments suitable, as their income stream is weekly or daily.

65. The Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets highlights the need to ensure that costs are "not prohibitive in practice." A key principle of inclusive insurance markets is affordability. Consideration should also be given whether price caps may render microinsurance unprofitable and unsustainable. Also the use of deductibles in some products, such as catastrophic microinsurance, might be considered to mitigate moral hazard and adverse selection risks.

Observed response(s) to the issues in respect of Product Development:

Brazil (Superintendencia de Seguros Privados, SUSEP)

Product oversight varies by product line. For general insurance, file & use is applied, meaning that products are approved for launch after SUSEP performs a quick analysis and releases the product registration number to the insurance company. For life insurance lines with a saving component, approve & use is applied, meaning that prior approval is required before the product can be marketed. For microinsurance products **file & use** is applied.

At present, SUSEP provides product oversight for 49 microinsurance products and 29 insurers offering microinsurance, including three dedicated microinsurance companies. On average, product approval is obtained in three days as long as the product operates with standardised coverage and exclusions with minimum document requirements as per the microinsurance regulation.

Quick turn-around of product oversight is facilitated by use of an electronic, web-based system. Insurance companies upload their products to the system and after SUSEP performs a minimum checklist on it, the product information is publically accessible on the SUSEP website. This procedure is an important transparency tool since it allows customers and other stake- holders to check if the insurance policy sold is in accordance with the product registered at SUSEP. The system is linked to a statistical accounting data- base, allowing information such as market share, claims ratios, and premiums by line of insurance to be retrieved. It enables SUSEP to have control and full visibility of all insurance products and a better view of the supervised market, since its control is not only limited to the insurance policy itself, but also allows SUSEP to have a global view of the product performance in the market.

India (Insurance Regulatory and Development Authority, IRDA)[54]

"India sees product design as a critical component of conduct of business regulation, with specific relevance to inclusive markets. The low income segment generally has limited financial education. Therefore, the microinsurance regulatory framework defines product parameters such as risk coverage (sum assured) and only certain product categories are allowed."

"Product design guidelines are issued specifically for microinsurance and insurance products targeted at rural / social sectors. Amongst other requirements, products have to meet actuarial scrutiny and comply with regulations, including simple language in policy forms and sales literature. Products have to meet certain features, such as being simple and inexpensive, easily understood, have reduced distribution costs and focus on product lines that are bought rather than sold. These requirements are validated through a file & use system, where products are reviewed by Product Approval Committees consisting of actuaries and subject matter experts, with every approved product receiving a unique identification number. Regulations are currently under review to introduce further safeguards to protect vulnerable customers."

South Africa (Financial Services Board, FSB)

South Africa's microinsurance policy proposals tightly control the parameters of product design permissible under a microinsurance license, in order to balance customer protection and market growth imperatives. Product review will take place on a **file & use** basis. In South Africa's policy proposal, microinsurance products are defined as risk benefits only, with no surrender value. Savings components are not allowed. Under the microinsurance line, benefits are capped for death events, other risk events (accident and disability) and asset insurance.

Microinsurance products are limited to a maximum product term of 12 months, at which point the product can be renewed. Underwriting can be applied either on an individual or group basis, and waiting periods are limited to a maximum of six months for death and disability products. Accidental death products cannot apply a waiting period. Exclusions may not be enforced for pre-existing conditions and, in life policies, exclusions with respect to suicide may apply for only two years. A right to a monetary benefit without administration fee is required to enhance the value of the product to the customer. For the same reason, microinsurance claims should be paid within 48 hours of receipt of the requisite information, and in respect of grace periods, customers have the right to the same terms being reinstated with the contract being reset to one month after reinstatement. To lower the costs of business, the regulator will permit initial pricing and subsequent changes on policies to be signed off by an actuarial technician, rather than a full actuary.

Ghana (National Insurance Commission, NIC)

Insurance products in Ghana can only be issued after the NIC has given its **prior written approval (approve and use)** for the product. This approach is taken given that the local insurance market is still developing, with customer protection understanding in its infancy. Most of the population is unfamiliar with insurance, so the regulator ensures that products deliver value. A new law is currently being passed that will allow for a file & use approach to product oversight. In the meantime, transitional prior approval rules apply.

Insurers apply for new product assessments by submitting a policy contract, an actuarial estimate and a written record of assessment (indicating how the target market, price, affordability and accessibility of the product were assessed internally).

[54] Source: Report of the 5th A2ii – IAIS Consultation Call, Product Oversight in Inclusive Insurance, 28 August 2014

In Ghana, microinsurance is defined as targeting a certain market segment. This segment must be proven to be low income generally, or a specific type or description of low income, or a low income person limited to a specific geographic area. Premiums must be affordable to the target market, and the insurance contract must be readily understandable to customers. However, microinsurance products can also be purchased by higher income customers.

Microinsurance in Ghana faces a number of challenges. For example, mobile insurance can be bought inadvertently when customers buy airtime, as an add-in package. For the moment, the regulator is still assessing how to protect these mobile insurance customers, who may not be aware that they own cover.

3.2 Distribution

66. The distribution features often found in inclusive insurance business models and the related risks to consumer protection that such features give rise to (as outlined in section 2.3) confront supervisors with new regulatory and supervisory considerations. This section considers the issues arising in inclusive insurance from the following distribution features:

- **The parties involved:** often multiple parties, many of which are not originally from the insurance or even financial services spheres, are involved in the distribution chain.
- **The skills and competence of the sales persons**: those selling the insurance may have less skills and training vis-à-vis conventionally licensed insurance brokers and agents.
- **The interests of the sales person or channel**: those distributing insurance in addition to or on the back of another good or service may have misaligned incentives, as insurance is not their core business and first priority.
- **Relative bargaining power**: insurers may have reduced bargaining power vis-à-vis those who control access to the customers (the aggregator).
- **Distribution costs**: the combination of bargaining power and a long value chain may lead to high distribution costs.
- **Reputational implications**: where an aggregator is the "face" of the insurance it may lead to increased reputational risk for the insurer.

67. **Multiple parties involved.** Where inclusive insurance distribution is characterised by a long value chain, it confronts insurance supervisors with more entities to accommodate in regulation, requiring entry and ongoing requirements to be set at a level that promotes provision of services by a broad spectrum of intermediaries, but in a way that does not undermine customer protection.

68. In doing so, supervisors may be challenged by the fact that aggregators or other third parties such as technical service providers or administrators do not fall within their primary jurisdiction. For example: mobile network operators are regulated by the telecommunications authority, where their regulation typically does not extend to intermediation of financial services. There is usually no direct provision in the insurance regulatory framework for insurance distribution through such intermediaries. It may also be that other laws (e.g. banking regulations) do not allow entities under their jurisdiction, for example a Microfinance Institution, to be an insurance agent.

69. The involvement of multiple parties gives rise to three main regulatory and supervisory considerations:

- *Intra-agency coordination*. How can insurance supervisory objectives be achieved in respect of entities that do not traditionally fall within the insurance supervisor's jurisdiction? This may require the insurance supervisor to coordinate with authorities and regulators in other spheres.
- *Accountability of entities*. How and to what extent can all entities in the value chain be made accountable to the insurance supervisor? While the institutional regulation of new entities in the value chain will remain with the respective other authorities, their incorporation under the functional jurisdiction of the insurance supervisor in terms of their role in insurance distribution is an important consideration.
- *Delegated supervision*. The demands placed on supervisory capacity by a multitude of additional distribution outlets (for example in a scenario where bank branches or mobile airtime vendors become insurance distributors) means that the potential delegation of the registration and/or supervision of the sales force to insurers

becomes a relevant consideration. This could mean that the insurer is held accountable for the actions of all persons selling its insurance policies. Insurers may be asked to keep a register of sales persons and to train and oversee them, so as to ensure appropriate conduct of business.

70. **Skills and competence of sales force.** In the interest of customer protection, intermediation regulation usually requires a minimum level of qualification, experience and know-how. Licensing often involves extensive training as well as certification fees.

71. Where proxy sales forces are used, or where insurance sales forces expand dramatically in line with new distribution models[55] adopted, it means that the nature and quality of the sales force may differ from that of conventionally certified insurance brokers and agents. It may also be that the type of information to be disclosed during the sales process will be different to what is required in conventional insurance regulatory frameworks, depending on the nature of distribution in the particular business model and the type of product. For example, inclusive insurance products are typically not complex products such as unit-linked products requiring extensive explanation, but simple products with few exclusions.

72. For the above reasons, conventional training, experience and qualifications requirements contained in insurance regulatory frameworks may not fully accommodate inclusive insurance distribution features. A resulting unintended consequence may be that aggregators choose simply not to license or register all sales persons for insurance distribution purposes – a phenomenon that may be difficult for supervisors with limited capacity to enforce in the face of a multitude of new sales persons (for example tens of thousands of MNO vendors acting as insurance distribution points).

73. The consideration arising for insurance supervisors is: at what level should entry and ongoing requirements for qualified insurance intermediation be set so that such requirements promote provision by a wide range of persons, are realistic to supervise, and are sufficient to ensure effective customer protection, while not putting an undue burden on the intermediary? Innovative approaches could be considered, e.g. tablet or web-based training, however it is important that their effectiveness is adequately monitored for example through mystery shopping or customer satisfaction surveys.

74. **Interests of sales persons or channel.** In the case of the proxy sales force, service-based sales, auto enrolment, passive sales and, in some cases, group decision models (as outlined in section 2.3), the interests of the sales channel are primarily aligned to that of the aggregator or group, and may be misaligned with the interests of the individual customer[56]. For example: a white goods retailer salesperson will primarily be interested in selling the underlying good, and will offer insurance in a way that promotes the sale of the underlying good. Likewise, a credit provider may primarily be interested in the protection against default risk offered by the insurance that is sold with the credit.

75. That means that whether or not the particular policy is appropriate for the particular needs of the individual, whether or not the policy is renewed (or simply re-sold once lapsed) and how to disclose information in a way that is most likely to be understood by the customer, may not be primary concerns to the channel.

76. Conventional elements of the insurance regulatory framework, such as commission structures and disclosure requirements, may inadvertently reinforce misaligned incentives, for example when an upfront commission structure implies that the sales person has no incentive to ensure policy renewals, where commissions are capped at a level that discourages an individual sales effort, or where disclosure requirements do not take into account the role and incentives of these new types of role players in insurance distribution.

[55] For the purpose of this paper, a distribution model is defined as the means through which insurance intermediation occurs, including the various parties involved and the relationships between such parties.
[56] Also see paragraph 66 onwards of the Issues Paper on Conduct of Business Risk and its Management

77. **Relative bargaining power**. Where the inclusive insurance value chain is based on partnerships between insurers and aggregators that provide access to a large customer base, a situation of unbalanced bargaining power may arise, as the aggregator can demand substantial sums from the underwriter in exchange for access to their customer base. This adds to the underwriters' costs, which may be passed on to the customer. The result may be questionable customer value.

78. Conventionally, the insurance regulatory framework is tailored to a situation where the primary relationship is between the insurer and the customer, not the customer and a third party, and will therefore not necessarily address such partnership dynamics and power imbalances.

79. **High distribution costs.** The combination of a long value chain, with more entities to remunerate along it, and enhanced bargaining power of those parts of the value chain controlling access to the customer base, may increase distribution costs. This may inflate premiums or cause claims ratios to be disproportionately low. In either instance, customer value may be reduced.

80. **Reputational risk impact.** Where non-insurance aggregators are involved in the inclusive insurance value chain, the insurer is often not the primary face of the insurance. This can lead to increased reputational risk for the insurer, should an action of the channel lead to a mis-sold policy, to policy awareness risk or to post-sale risk[57]. It may also be that the actions of the intermediary lead to payment risk that impacts the reputation of the insurer, should it result in lapsed premiums or unpaid claims.

81. The various conduct of business considerations to prevent such a situation may not be covered by the conventional insurance regulatory framework and the associated codes of conduct.

Observed response(s) to the indicated issues:

As the inclusive insurance distribution features giving rise to the issues raised in this section are still relatively new, most countries have not yet adapted their regulatory and supervisory frameworks to better align to inclusive insurance market trends, or are now in the process of doing so. Brazil, Ghana and the Philippines represent three case studies where microinsurance regulatory frameworks have already been developed that incorporate specific intermediation elements. In each country, unique market features informed the development of the specific regulatory response.

Brazil

Brazil has a large inclusive insurance market that is characterised by a number of proxy sales force and other inclusive insurance business models operating at large scale and embodying many of the inclusive insurance distribution features that confront supervisors with new issues as highlighted above. Cognisant of these market features, the Brazilian insurance supervisor, SUSEP, on behalf of the National Insurance Council (CNSP), has over the past three years issued a set of rules to regulate new distribution channels in Brazil as part of its broader microinsurance/inclusive insurance regulatory framework. Amongst others, the new rules provide for three new players in the insurance value chain: insurer's representatives, microinsurance correspondents and microinsurance brokers. In addition, banking correspondents are also allowed to sell microinsurance[58].

Of particular significance is CNSP Resolution #297, October 25, 2013, which focuses on regulating the retailer's role in insurance sales. The main provisions established by CNSP

[57] If the aggregator also suffers reputational risk (as their brand is at stake), this impact may be mitigated.

[58] The relevant provisions are contained in: SUSEP Circular 441, of June 27, 2012 - *Regulates microinsurance sales through bank correspondents;* SUSEP Circular 442, of June 27, 2012 - *Regulates microinsurance correspondents and* SUSEP Circular 443, of June 27, 2012 - *Regulates the registration and activity of microinsurance brokers.*

Resolution #297 include that insurers are responsible for the actions of their representatives, that representatives should offer insurance only through individual polices or simplified insurance "tickets" and a prohibition of tied sales[59] through this channel. Minimum qualification and training requirements apply for representatives' employees in charge of insurance sales and they may sell only limited lines and simple products. Furthermore, SUSEP has full and unrestricted access to Insurance Representatives' physical offices/places of operation and to all signed contracts as well as to all information, data and documents relating to the contract. Strict disclosure requirements, including on the insurer's name and details on product features, also apply.

Additionally, SUSEP Circular 480, of December 18, 2013 requires all retailers offering insurance plans on behalf of an insurer to sign a contract as an insurance representative. The main provisions set by Circular #480 include that the retailer must sign a contract with the insurer to act as the insurer's representative (thus, subject to CNSP Resolution #297), that there is a statutory cooling off period during which the insured can cancel the contract, a prescribed code of conduct for salespersons, and explicit disclosure requirements, including the need for a visible physical location for insurance sales at stores.

Philippines[60]

The Philippines is a pioneer country in terms of microinsurance regulation. While also aiming to achieve goals such as formalisation, a substantial part of the microinsurance regulatory framework deals with distribution.

Amongst others, the distribution elements of the framework include that brokers for whom microinsurance represents at least 50% of their portfolio are subject to reduced capital requirements. Furthermore, various provisions are included regarding the licensing and training of intermediaries. Three circulars from the Insurance Commission and two from the Central Bank were introduced between 2010 and 2011 to regulate the nature of a microinsurance agent and the training of agents. Under the rules, insurers are liable to ensure that the intermediaries that they use are licensed and trained. Rural banks can qualify as an agent. The Insurance Commission must approve agent licenses of rural banks, as well as training modules before the training provider is accredited, and the microinsurance agent must display visible signage on its premises. Other parts of the framework, such as Insurance Circular 5-2011 on Microinsurance Performance Indicators, are also of relevance to the issues raised by inclusive insurance distribution.

The outcome has been a significant expansion in registered microinsurance agencies, including rural banks registered as microinsurance agents. The circulars requiring rural banks to register as intermediaries had an important impact in incorporating the largest rural banks engaged in microinsurance into the insurance regulatory fold as distribution channels. However, there are still a number of informal providers, for example cooperatives, that have chosen not to formalise their status. There is an ongoing multi-stakeholder process towards formalisation, as well as to update the microinsurance regulations to ensure that they remain relevant given changing market conditions.

82. **In summary**: The distribution method applied may reinforce inclusive customers' vulnerabilities as outlined in section 2.1: the insurer is less visible to the customer; passive sales techniques or sales by persons with reduced skills or misaligned incentives may exacerbate the risk of mis-selling where customers have limited knowledge and skills; and customers will be less aware of the fact that they have cover and of how to claim in the case

[59] Also referred to as bundled product in paragraph 55, namely where the sale of another good or service is conditional upon the customer buying a linked insurance product.

[60] Sources: 1) Regulatory Impact Assessment Microinsurance Philippines For the GIZ Project Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia (GIZ-RFPI), Martina Wiedmaier-Pfister and Michael J. McCord (Microinsurance Centre), 27th August 2014, work in progress. 2) Case Study: The Philippine experience on Microinsurance Market Development. Prepared by D. Portula (GIZ-RFPI) and R. Vergara (Philippine Insurance Commission), August 2013.

of auto enrolment. Thus inclusive insurance business models challenge supervisors in that they need to consider:

- the need for coordination between supervisors from different spheres where channels not traditionally under the jurisdiction of insurance supervisors are leveraged for insurance distribution purposes;
- the range of intermediation channels to be allowed, which in turn will have implications for the institutional and qualification requirements set in order to ensure appropriate sales;
- how to ensure appropriate conduct of business by this broader range of entities in the interest of customer protection, in a way that does not unduly impact cost or limit the landscape of distribution methods;
- how to balance the power dynamics relating to distribution methods and ways to mitigate the customer protection impacts of power imbalances; and
- whether and how to monitor relevant indicators of customer value, responding appropriately where concerns arise.

83. While customer protection concerns require a particularly strong emphasis on conduct of business regulation in inclusive insurance, country experience has shown that there is also a real danger of "protecting customers out of the market", meaning that the regulatory burden imposed by strict conduct of business requirements pushes up distribution costs to such an extent that insurers may not find distribution to the low-income market viable, or may streamline distribution to entail no or limited advice. This may defeat the purpose of the conduct of business regulation in terms of customer empowerment, disclosure and prevention of mis-selling outcomes envisaged. The Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets contains guidance on responses proportionate to the nature, scale and complexity of the entities and risks arising.

3.3 Disclosure of Information

84. The insurer or intermediary, as relevant, should take reasonable steps to ensure that a customer is given appropriate information about a policy in good time and in a comprehensible form so that the customer can make an informed decision about the arrangements proposed (product disclosure)[61]. The information that is provided to the customer should be clear, fair and not misleading and enable the customer to make an informed decision about the product by understanding the characteristics of the product (s)he is buying and by understanding whether and why it meets his/her requirements[62]. On the other hand care should be taken that the costs of compliance with relevant regulation in respect of disclosure do not trigger higher premiums and become prohibitive for more access to insurance.

85. The profile of the typical inclusive insurance customer as described in section 2.1 creates specific challenges as to the mode, timing, content and language of the disclosure. This is recognised in ICP 19 where it states that "the level of information required will tend to vary according to matters such as: the knowledge and experience of a typical customer" in addition to the product features[63].

86. Integrating the mandated information disclosure with a general education and awareness campaign can make the approach more effective and efficient.

87. **The mode of disclosure** refers to how the relevant information is conveyed to potential and existing customers. A key element of what constitutes an appropriate mode of disclosure includes what can be included as part of verbal disclosure and what is required to be disclosed in writing. A second element of the mode of disclosure pertains to whether the insurance contract and policy details must be disseminated in paper format or whether an electronic version will suffice.

88. Conventional means of disclosure may not be appropriate or adequate given the market which inclusive insurance is trying to address. The mode of disclosure could even be by word of mouth; or there might be a local gathering place where conversations take place.

89. Information disclosure is sometimes supported by innovative means of raising awareness and insurance literacy. It can use visual learning approaches such as role plays, videos, posters, comics and other learning materials, for instance by retailers who display terms and conditions on pamphlets in their shops allowing permanent access to the information. However, this only works if the insurance policies are basic and do not include voluminous exclusions.

90. **The timing of disclosure** concerns the most appropriate and effective stage in the process of the policy sale in which to disclose the relevant information to the customer. Relevant policy information is most useful to customers just before they need it, which is usually whilst being in the process of deciding whether to purchase the policy or not and during the claims process, and customers are typically most receptive to information when that information is immediately useful.

91. In inclusive insurance it is important that disclosure is done in a manner and at a time which synchronises with the work/life needs of those getting the insurance. Customers may have work patterns which set different priorities at certain times (e.g. bringing in crops) and those need to be recognised and accommodated.

92. **The content of disclosure** should contain the key features of the product including but not limited to the identity of the insurer, the risks covered and excluded, the level of premiums and the prominent and clear information on significant or unusual exclusions or

[61] Guidance 19.5.1; also see paragraph [45 onwards and 91 onwards] of the Issues Paper on Conduct of Business Risk and its Management
[62] Guidance 19.5.2 / 19.5.4 / 19.5.9
[63] Guidance 19.5.10

limitations[64]. There is therefore a clear link with the development of the product at which stage the scope and limitations / exclusions are set. The simpler the terms and conditions the easier their disclosure. The customer in inclusive insurance is better served with a focus on the quality of product disclosure rather than on the quantity of disclosure, as there is a risk that if the disclosure becomes too voluminous then the customer may be less likely to read the material and understand the important messages.

93. The language required during the disclosure includes the question of whether the insurer should disclose policy details in the potential customer's native / official language or whether vernacular language in the country is acceptable.

94. A different aspect to language is that of simplicity. Difficult terms and complicated sentences will form barriers to the proper understanding by the inclusive insurance customer. The use of standardised information that is screened on its easy readability and use of simple words might help.

95. Also relevant is the effectiveness of the **process of disclosure**, particularly taking into account the extended intermediation channel typically found in inclusive insurance. When there is an aggregator, other than an agent, involved in the sales process, there is a heightened risk of insufficient disclosure as the proxy sales force of the aggregator may require training in order to effectively disclose the details of the policy. The issue is to what extent insurance intermediaries should be regulated in terms of disclosure as the more stringent the requirements, the more costly for the intermediation channel, which could impact the attraction as a channel to reach low income customers. Greater regulation will also require greater supervisory monitoring capacity. Supervisors may make the insurer ultimately responsible for all disclosure through the sales process.

96. A further issue relating to the **effectiveness of disclosure** arises due to the fact that, in many transactions where inclusive insurance is purchased, the objective of the customer is not to purchase the insurance, but rather to purchase another product or service, such as credit or an asset. The insurance component of the transaction is thus entirely subservient to the primary product. In relation to the primary product, the bargaining position between the customer and the provider/intermediary is often entirely reversed, with all the bargaining power on the side of the provider (for example a credit provider). In these situations, it does not matter how extensive the level of disclosure on the insurance policy is, it has virtually no impact on the decision to purchase the policy or not since the customer is on the receiving end of terms dictated

97. The tension between offering compulsory insurance products and voluntary products can be exacerbated by concerns that compulsory products may not provide customers with the sufficient information to i) make an informed decision to opt out of the scheme that is providing the compulsory product or ii) understand how questions can be addressed or claims can be made. Offering customers information even when products are compulsory or embedded into other packages of financial services (such as savings, remittances, or credit) is important to ensure that customers can benefit from the products at all.

Observed response(s) from industry and regulators to the indicated issues:

- In the Philippines, a prototype Microinsurance policy contracts for non-life product (covers basic peril to life, properties and livelihood) and life products (term life and life contract with cash value) have been developed jointly by associations of insurers and the Insurance Commission through a Technical Working Group. The prototype has ensured that the policy contract (1 page only, and written in Filipino and simple English) disclosed key information about the product and insurer being required by the Insurance Commission. The prototype policy contract, similar to all other Microinsurance products

[64] Guidance 19.5.11

approved by the Insurance Commission based on the Circular, should prominently display the Microinsurance logo on the face of the policy contract. This is to enable the customers to immediately recognise that they are buying Microinsurance.

- FINO Fintech, an Indian banking correspondent agency that works with agents selling insurance and other financial services, has developed a cost-effective mobile-based training module. This module has allowed FINO to reduce the duration of in-person training and to deliver on-going support through updates about product and policy changes and answers to frequently asked questions. FINO tracks whether agents have downloaded the updates and is able to follow up with those who do not. Once downloaded, these updates remain available to agents even when they do not have mobile reception, so they can access them while interacting with customers in the field.
- MicroEnsure Philippines, a microinsurance broker, is using call centre platform to support policy holders on claims processing and on general inquiry about microinsurance.
- Regulation in Mozambique requires the insurance contract to be in writing and the policy document to be physically delivered. This could be costly from a microinsurance perspective and in practice might not be viable.
- 2012 Brazilian microinsurance regulations allow for "remote means" of contracting which do not require a hard copy signature or policy document.
- Both Ghana and South Africa allow for electronic contracting in their regulation, whilst Tanzania implicitly allows for electronic contracting in the absence of e-commerce regulation.
    - MicroEnsure/Tigo's mobile insurance products in Ghana and Tanzania rely on electronic contracting.
    - There are also a number of insurance products in South Africa that rely on remote (electronic or telephonic) contracting and disclosure. For example; Outsurance, Customerele Life and some of Hollard's products.

Content of disclosure:

- Some countries, such as Zambia, do not address the issues of disclosure and transparency at all: "there are no stipulations on the information to be disclosed to the customer and in what way. There are also no requirements for financial advice". This creates uncertainty in the market – which the draft plans for microinsurance regulations in Zambia now seek to rectify.
- Others have detailed disclosure requirements as part of conduct of business regulation and many countries have tailored or are considering tailoring these requirements to microinsurance. For example: microinsurance regulations in India and Philippines. Brazilian regulation explicitly stipulates that "customers must be well informed and there should be full transparency. Insurance should be offered to customers in a correct, clear and accurate way, with adequate information in Portuguese on their characteristics". China requires simple insurance certificates with all the relevant details of both parties and the policy must be issued to policyholders. In Peru regulations promote the transparency of all costs including the insurance premium and require insurers (and their sales channels) to provide detailed information.

Language of disclosure:

- The insurer Hollard in South Africa created a model of a microinsurance policy in simple, plain English. In addition, the most important features of the life insurance contract for products offered through the retailer PEP are communicated through pictures and in simplified, plain language. Customers of Hollard's microinsurance products often have low levels of literacy and rely on face-to-face distribution and verbal explanations.
- Pakistan's microinsurance regulations (2014) stipulate that "any disclosure made to the microinsurance policyholder is written at least in the Urdu language."
- India's microinsurance regulations stipulate that "every insurer shall issue insurance contracts to the individual micro-insurance policyholders in the vernacular language."

Effectiveness and process of disclosure:

- A MILK Project study of catastrophic insurance in Ghana suggested that customers were not well-informed of their mandatory coverage. When a flood hit the insurance pay-out was in many cases a surprise to customers. However, a similar phenomenon occurred in Colombia even with a voluntary insurance product. While customers recalled being insured they were extremely confused about the benefit that was due to them and often expected a pay-out that was very different from the one they received.
- In Colombia, all loans should have credit-life coverage, but customers are legally able to purchase this coverage from any source and should be made aware of this option. While in practice, most low-income customers who use microcredit buy this insurance through their microfinance institution, some (usually fewer than 5%) do opt to purchase it separately from a different insurer.
- Mongolia: Insurers can be asked to withdraw advertising the supervisor considers misleading.
- Peru: the insurer is responsible for providing information and documentation to the customer, which in the case of non-compliance can even lead to resolution of the policy. In these cases the premium is returned if the user reports that he/she has not received the documents/information during the free-look or cooling off period[65].

[65] See paragraph 97 on the free-look and cooling off.

3.4 Customer Acceptance

98. Customer acceptance refers to acceptance of the customer's risk by the insurer based on a policy proposal submitted by the customer, or by a broker or other intermediary on behalf of the customer. Customer acceptance signifies that a contract has been entered into between the policyholder and the insurer. Before this can be the case, there needs to be sufficient certainty on the risk profile, price, terms and conditions for both parties to reach agreement.

99. To create the required certainty for customer acceptance, insurers will request certain information and/or documents from potential customers. To ensure customer protection and proper conduct of business, regulation may also place certain requirements on the contracting process, for example that a written, signed proposal must be submitted and a policy document or certificate issued as formal acceptance, that a broker should co-sign the proposal, or that a customer be granted a certain period during which they can cancel the policy and have premiums reimbursed (called a "free-look" or "cooling off" period).

100. Regulatory objectives in the area of financial integrity, most notably anti-money laundering and combating the financing of terrorism, can also place requirements on customer acceptance, listing certain information and documents that the customer needs to submit before acceptance can take place.

101. Where documentation or information requirements imposed by insurers and/or regulations are onerous for low-income customers to meet, or customers do not have access to the necessary documentation, it can create a barrier to inclusion.

102. The modes of contracting prevalent in the inclusive insurance business models discussed in section 3.2 give rise to a number of distinct customer acceptance considerations in the inclusive insurance sphere which may require a proportionate regulatory and supervisory response.

103. This section considers the issues arising from four salient customer acceptance features in inclusive insurance markets, namely:

- **Group acceptance**: In contrast to individual acceptance, where customer acceptance is based on an assessment of the individual's risk profile (termed underwriting), group acceptance happens when the insurer assesses and prices the risk of a group as a whole. There is therefore no individual underwriting and individuals cannot be denied acceptance or have their pricing adjusted based on their individual risk profile. Cover, terms and conditions are standardised[66].
- **New parties involved in the offer and acceptance process**: A broker does not necessarily submit a proposal on behalf of the customer and there is not necessarily a direct policyholder relationship between the insurer and the insured.
- **Non-face-to-face / remote contracting**: To reduce costs and facilitate alternative distribution[67], contracting in inclusive insurance often takes place through non-face to face or electronic means.
- **Low money laundering/financing of terrorism risk**: Inclusive insurance policy contracts tend to entail small value benefits and to cover types of risks not prone to money laundering or financing of terrorism risk.

[66] Group policies can be compulsory or voluntary/open. Under the former, all members of a group are covered by virtue of their membership (for example, an employer-based scheme). This minimises the risk of adverse selection. In the latter, for instance affinity groups, a person may choose whether or not to be covered by the group policy.

[67] Defined as innovative distribution approaches not including the traditional insurance sales structures, such as broker, agent and sales staff (in the inclusive insurance space, often by an aggregator).

104. **Group acceptance.** Under group acceptance individuals can buy policies without the need to submit their individual risk characteristics. This makes customer acceptance administratively more convenient and reduces costs, and may increase premium persistency if premiums are collected via the group.

105. The downside to the individual, however, is that low-risk individuals do not benefit from individual underwriting. Indeed, the insurer may not even know the details of the end-customers. Furthermore, open group acceptance may necessitate the use of a waiting period to reduce the risk of adverse selection. If customers do not fully understand the terms of the waiting period, they may be disillusioned when claims are rejected during the waiting period. Should a person or group switch cover from one insurer to another, it may imply interrupted cover if a new waiting period is imposed.

106. Potential regulatory considerations include:

- Whether to place any conditions on the mode of underwriting allowed.
- May a third party such as an administrator or aggregator enter into a contract on behalf of individuals, and under what conditions?
- How to ensure protection of the individuals in the risk pool, should their risk profile change?
- How to ensure that the insurer knows who is insured under the policy?

Observed response(s) to the indicated issue(s):

The proposed South African microinsurance regulatory framework states that insurers should not be able to selectively cancel (or refuse to renew) individual policies within the group. Should the insurer no longer find the level of risk acceptable, it must decline to renew the policies for the whole group.

The framework also has stipulations regarding maximum allowed waiting periods, disclosure regarding waiting periods and stipulates that no new waiting period should apply if a group policy switches between insurers, as long as there is uninterrupted cover.

Finally, the South African insurance regulatory framework contains conditions for "binder agreements" to apply in instances where a third party, such as an administrator, has the ability to bind an insurer into an insurance contract.

107. **New parties involved in the offer and acceptance process.** Typically, an insurance proposal is signed by the customer or legal representative of the customer, plus, where applicable, his or her broker. The same may however not always apply in inclusive insurance – a phenomenon that is directly linked to the prevalence of group acceptance. For example: in the inclusive insurance space, group policies are frequently contracted through a third party, which can be a group organiser, manager, aggregator, technical service provider or administrator. The offer is signed by the third party, which enters into the policy on individual group members' behalf[68]. This may create the risk that the individual is not aware of his or her cover or who the insurer is and how to claim, that the book is moved between insurers without the individuals' consent and that individuals are left with gaps in cover in the process of such a move.

108. Thus, whereas traditionally the principals to an insurance contract are the insurer and the insured, with a supervised intermediary in-between, in inclusive insurance the relationship may be interposed by new parties. These additional contracting parties do not

[68] One particular example is free or subsidised auto enrolment schemes, where another party, which can be a bank, credit provider, a mobile network operator or the state, makes the offer and pays the premium on behalf of the insured individuals – in some instances without the individual even knowing that they he or she is covered.

necessarily have an agency relationship with either the insurer (as the case would be for agents) or the insured (as the case would be for brokers).

109. The contracting modalities found in many of the evolving inclusive insurance business models necessitate supervisors to reassess the conduct of business requirements placed on the customer acceptance process. The following considerations arise for supervisors:

- The need to revisit conventional requirements for co-signature by a broker or other intermediary.
- The need for clarity regarding the contractual relationships between insurer, insured and third parties.
- The need to consider specific customer protection safeguards in the contracting process, for example:
  - requiring certain information to be communicated to customers in auto enrolment schemes;
  - requiring that individuals be given proof of their cover even if they are not the direct policyholder; or
  - placing conditions on the conduct of third parties entering into an insurance contract on behalf of group members.

Observed response(s) to the indicated issues:

- Chinese regulation requires the issuing of simple insurance certificates to all end-customers which should contain necessary information, such as the name of the applicant, the name of the insured, the name of the beneficiary, the type of the insurance, the name of the insurance, the sum insured, the period of insurance, the premium for each period, the date of payment, the coverage and exclusions, the address of the insurer and the details of customer service hotline, etc.
- A number of countries, for example Uganda and Brazil, require clear communication (verbally and/or in writing) to the customer on the identity of the underwriter where policies are branded under the name of the distribution partner.
- An increasing number of countries are referring in regulation to third parties/aggregators and their role and responsibilities in contracting.
- Pakistan and South Africa impute a direct relationship between the insurer and insured, irrespective of whether there is a third party master policyholder. This includes imputing an uninterrupted insurance contract between the insurer and the insured, irrespective of the content of the intermediate agreements between the parties involved (such as a group administrator and the insurer).

110. **Non-face-to-face / remote contracting.** In inclusive insurance business models, an offer is often made without the customer having been in the physical presence of an intermediary that can verify their details. For example: customers may buy a standard policy "coupon"[69] whereby the premium payment is regarded as the proposal or offer. Either their first premium payment, or a subsequent recorded conversation with a call centre agent, is then regarded as the offer. In other models, customers may sign up for insurance

[69] Any standardised insurance contract that a person buys "off the shelf", without the cover and terms being tailored to the specific policy holder. Such insurance products take on different forms: in South Africa, for example it's often sold as a policy card that is packaged much like a mobile phone sim card starter pack, in Brazil it's called a "ticket" or voucher. In some instances the policy is printed on a point of sales slip, or even, in an example from India, on a bag of fertiliser.

telephonically, over the internet or via a mobile phone. In both instances, the customer does not sign a physical insurance proposal.

111. These elements give rise to the following considerations for supervisors:

- The allowed modes of electronic contracting and renewal and the corresponding risks to be managed. For example: does there need to be a customer signature in hard-copy format? What alternatives can be considered (including biometrics, voice recordings or electronic acceptance of terms and conditions)?
- The format (hard copy or electronic) of policy proposals and other documents such as marketing or pre-sale materials, post-sales materials, as well as any further communications needed, e.g. regarding renewal, cancellation or premium changes.
- Ways in which policies, coupons or certificates can be simplified to enable non-face-to-face contracting whilst ensuring adequate disclosure and customer protection.
- The need for coordination with other authorities responsible for the development of electronic commerce legislation or for contracting law more broadly in countries where clarity on the legal standing of electronic contracts is lacking.
- How insurers and intermediaries store electronic records and the integrity of the system to ensure that records are not lost or used in an inappropriate way.

Observed response(s) to the indicated issues:

There are multiple examples of electronic commerce laws, internationally, covering, amongst others, legal recognition of electronic contracts, electronic records and digital signatures. Even in countries without explicit electronic commerce regulation (for example Tanzania), electronic contracting is often implicitly allowed as long as the conditions for entering into a contract under contract or common law are met.

The Brazilian microinsurance regulatory framework allows digital signatures alongside other contracting methods. As part of the requirements for remote means of contracting, there must be recognition of digital signatures on both sides of the transaction.

112. **Low money laundering and terrorism financing risk.** The customer due diligence (CDD; also known as "know your customer" (KYC)) requirements implemented under anti-money laundering and combating the financing of terrorism (AML/CFT) regulation place a direct burden on customer acceptance, as it prevents accountable institutions (which, depending on the specific jurisdiction, will include insurers) from entering into a business relationship with a customer unless the customer has submitted certain documentation to allow identification and verification of their identity.

113. Should these requirements be applied to insurance, many inclusive insurance target customers will not have the requisite documents and could thus be denied acceptance.

114. International guidance, in the form of the Financial Action Task Force (FATF) Recommendations and Special Recommendations and the 2013 FATF Guidance on Anti-money Laundering and Terrorist Financing Measures and Financial Inclusion[70], allows for a risk-based approach to be applied, with more stringent measures for higher risk and streamlined requirements for lower risk customers and transactions – including low value life insurance policies and products aimed at promoting financial inclusion. "In such circumstances, and provided there has been an adequate analysis of the risk by the country

[70] Available at: http://www.fatf-gafi.org/media/fatf/documents/reports/AML_CFT_Measures_and_Financial_Inclusion_2013.pdf

or by the financial institution, it could be reasonable for a country to allow its financial institutions to apply simplified CDD measures."[71]

115. Thus inclusive insurance markets confront regulators and supervisors with the need to assess the risks of money laundering and terrorist financing associated with different types of products in order to determine a proportionate response to customer acceptance requirements (see the Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets for further details).

116. Another consideration is the need for inter-jurisdictional cooperation/coordination with the Ministry of Finance and the financial intelligence unit to ensure that any measures adopted on the insurance front are in line with the country's overall approach regarding AML/CFT.

Observed response(s) to the indicated issues:

A number of countries have implemented a KYC exemption or streamlined requirements for certain types of low-risk insurance. For example: the Philippines stipulate relaxed KYC requirements for microinsurance in compliance with the country's Anti-money Laundering legislation.

[71] Specifically, the FATF recommendations only apply to life and investment-related insurance. Furthermore, the recommendations make it clear that there are circumstances where the risk of money laundering or terrorist financing may be lower. Instances where this may be the case include life insurance policies where the premiums is less than USD or EUR 1,000 per annum (or a single premium of less than USD/EUR 2,500), as well as "[financial] products or services that provide appropriately defined and limited services to certain types of customers, so as to increase access for financial inclusion purposes". Source: FATF, 2012. Interpretative Note to FATF Reccommendation 10. Available at: http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF_Recommendations.pdf

The Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets confirms that inclusive insurance products can generally be regarded as low risk, as: inclusive insurance tends to entail low-premium, low-benefit products with frequent rather than one-off premiums. There is therefore a mismatch between such products and the "transaction needs" of money launderers. Furthermore, the types of risks normally included in inclusive insurance are not typically targeted for money laundering.

3.5 Premium Collection

117. To purchase insurance cover the policyholder needs to pay a premium. This can take the form of a cash payment or payment using banks and modern digital means of payment.

118. In inclusive insurance there is the phenomenon of loyalty products, which are provided to the customer free of a direct payment (often termed the "freemium approach"). Payment comes e.g. from a MNO. Customers may also be offered the option to up-grade the "free" product or migrate to a paid product. This could be helpful in a program designed to get customer groups acquainted with insurance and its mechanics which could enhance access to insurance.

119. The reliance on cash in emerging market economies exposes the customers as well as stakeholders to a variety of risks. Theft or misappropriation of cash may be assisted by the suppression, falsification or destruction of accounting records, or where no initial records are created at all. Payment systems can help to reduce loss or theft, which is a fundamental drawback associated with cash. In particular, electronic payments free individuals of those risks and ensure the availability of funds when they are needed. However, electronic accounts, whether on a card or mobile phone, must have sophisticated risk management systems in place to secure against unauthorised use and enable deactivation in the case of loss or theft.

120. In the following paragraphs the issues in respect of premium collection in inclusive insurance are discussed divided into the categories:

- Use of bank accounts;
- Premium collection by agents and brokers;
- Involvement of aggregators in premium collection;
- Use of mobile phone technology in premium collection.

121. **Use of bank accounts.** In conventional insurance the use of bank accounts for the collection of insurance premiums is commonplace. This is much less a given fact in inclusive insurance. Not everyone has a bank account from which (s)he can make payments. If a policyholder does not have an account with a bank and needs to deposit cash to pay the premium the bank could charge a fee that may exceed the amount of the premium. If the policyholder is in the possession of an account his / her bank may impose penalties in the case of a deficit which may be caused by irregular income patterns of the policyholder.

122. Another issue is the availability of bank branches. Certainly in rural areas or certain suburban areas there may be a shortage of bank branches for the account owners to use. Sometimes this is resolved through the use of ATMs that can be used to deposit cash.

Observed response(s) to the indicated issues:

The use of bank accounts for premium collections is very common in Brazil even for inclusive insurance; banks possess a substantial number of low income customers and some of the large insurance companies belong to the same group of bank institutions. Furthermore, the collection of insurance premiums could be made by correspondent banks.

On the other hand, independent insurance companies may have difficulties to implement premium collections through customer's bank accounts since the fee charged for this service is sometimes higher than the insurance premium. The use of ATM and POS in retail locations to pay the insurance premium with a debit card is also an alternative.

The so called correspondent banks (CB) were created by Central Bank to take banking services to the bankless population. Taking advantage of the appropriate environment created by such legislation, SUSEP has set a rule allowing insurance distribution through correspondent banks. Major banks in Brazil located their CB networks in lottery

agencies, post offices, retail establishments such as supermarkets, mini-stores, drugstores, gas stations, and so forth. As a great part of these CBs are located in poor areas, such as urban slums, various disadvantaged neighbourhoods and even remote rural locations, the system can provide poor people with many benefits in terms of access to banking services.

123. **Premiums collection by agents and brokers**. The number of agents and brokers very often exceeds the number of insurers. That exacerbates challenges to inclusive insurance markets in which the regulation of agents and brokers is rudimentary. When policyholders pay premiums to agents and brokers it is essential that proof of payments exists and the payment is correctly entered into the accounts of the agents / brokers and subsequently registered with the insurer.

124. A different issue arises when the agent or broker defaults on its debts and subsequent premiums collected from policyholders are not transferred to the insurer or credited as payments received in the account held between agent / broker and insurer. To overcome this risk, sometimes by law any premium payment made to an agent / broker is considered to be made to the insurer.[72] It is therefore important that the insurer has arrangements in place to oversee the finance and administration of the agent and brokers.

125. **Involvement of aggregators**. As described in section 2.3 and 3.2 aggregators play an important role in the distribution of insurance in inclusive markets. Various parties like retailers, utility service providers, MNOs and employers can serve as aggregators and be the point of sale for the insurance contract and manage other parts of the client relationship such as premium and claims servicing. Since this category as such is conventionally not subject to any formal supervision from an insurance perspective the concerns mentioned in the previous paragraphs on cash payment, proper administration and premium payment discharge are even more pertinent. In these situations there can often also be less reliance on insurers to effectively oversee these types of distributors if the latter dominate the relationship, access to their numerous outlets is a challenge or proper control systems are not in place.

126. **Use of mobile phone technology**. As described in section 2.4 the use of mobile phones in insurance or mobile insurance is a well-known phenomenon in inclusive markets. In respect of premium collection there are various issues worth mentioning. Mobile insurance is a suitable way of premium collection that overcomes barriers in access to insurance as payments can be made easily without any need for cash payments. However, sometimes cash payments still need to be made to an agent or aggregator who then enters the payment into their mobile phone for transfer to the insurer's database. This creates considerations around cash management and receipt of premiums, as well as oversight over MNO agents collecting premiums on behalf of insurers.

127. Initially in mobile insurance the premium collection often took place by deduction of the premiums from the airtime of the customer. As this turned out to deplete the airtime considerably, and sometimes without the policyholder being aware of this, alternatives have emerged in which separate e-money accounts are held with the MNO.

128. While mobile insurance can provide a helpful distribution model an important condition is that the geographic area and telecom infrastructure should be such that there is connectivity and mobile devices can be used or alternatively information can be stored on a device until such time that the user can connect with the insurer's information systems.

129. As a consequence of the fact that mobile insurance developed as a loyalty program for MNOs - and initially has often been offered for free – customers identify the MNO with the insurer. This means that any business conduct of the MNO will also affect the insurer. Reference is made to the EcoLife example in section 2.4.

[72] Similarly, payment of a claim by the insurer will only be considered to be made to the policyholder if the latter has actually received the sum.

3.6 Claims Settlement[73]

130. An efficient and expeditious claims settlement process is generally an important feature for an inclusive insurance product that adds value to the inclusive insurance customer. The reason for this is that very often the insurance covers the basic needs of existence and income (health, crop, livestock, equipment, workshop, death, disability) and claims need to be processed and paid expeditiously to avoid a further decrease in income or sales of assets to cover expenses.

131. Also the importance of the claims settlement performance should be mentioned. Unfair claim rejections and unnecessary procrastination in payments of claims could in traditional insurance markets give cause to lawsuits. However, inclusive insurance policyholders can hardly afford to pay a lawyer and therefore, in practice, cannot legally enforce payment. Such practices can damage policyholders' confidence and the inclusive insurance market's credibility.

132. In this section issues for insurance supervisors arising from claims settlement in inclusive insurance will be further discussed in the following categories:

- The process of claims settlement;
- The documentation requirements;
- The nature of the compensation.

133. **The process of claims settlement.** Claim processes and costs must already be considered in the product development stage. A simplified product design will greatly enhance the claim process. A great number of exclusions means a more complex settlement process and can cause a high claim rejection rate. To facilitate the claim settlement of inclusive insurance products and its understanding by the policyholder, the products should be as simple as possible, with standardised policy wording, limited exclusions and minimum document requirements.

134. In view of the inclusive insurance customer's interest in an expeditious claim settlement it is important that the insurance contract establishes a deadline for the payment of the insurance as well as imposes limits for additional documentation in order to overcome lengthy procedures.

135. In assessing the claim payment, the insurer will take into account the kind of insurance contract and the type of insurance coverage. Group insurance policies may be issued through an employer, bank, credit agency, or other professional or social organisations, and they often pay benefits in specific circumstances. Sometimes the payment in case of group insurance policies is not made directly to the beneficiary as in the individual policy. The payment can also be made through the policy administrator which could result in claim delays. In this sense, each situation must be analysed by the insurer before adopting an indemnity payment model.

136. Products such as index insurance[74] require different approaches as well. Depending on the type of product the pay-outs in index insurance can be made promptly – a feature that reduces or avoids sales of assets. This is the case in weather-based index or satellite-based index insurance for crop or grassland insurance. The draw-back of these types is however that the mechanics are difficult to understand and the policyholder fails to grasp the rationale for the claims settlement. In both cases there is also a basis risk which is the potential difference between the actual loss and the loss determined by the index (e.g. related to a certain crop yield). Depending on how the basis risk affects the payment to the customer it may turn out to be either detrimental to the confidence in insurance (if a claim is denied

[73] Also see paragraph 95 onwards of the Issues Paper on Conduct of Business Risk and its Management
[74] Index insurance is insurance that is linked to an index, such as rainfall, temperature, humidity or crop yields, rather than actual loss.

although a crop is damaged) or remove the incentive to save the crop if payment is expected anyway.

137. Using new technologies may also contribute to the efficiency of the insurance pay-out process. In some countries, insurance companies are introducing the use of mobile phone technology in the enrolment and claim processing of livestock insurance products, which provides cover in case of death of the cattle due to accident, disease, fire or flood. Mobile technology is being used to reduce transaction costs, processing time, and improve service to customers. In the new enrolment process, details and photographs of the enrolled animals and information on beneficiaries will be captured on a mobile phone and relayed directly to a central server for "instant" enrolment and policy issuance. Similarly, for claims settlement, photographs of the animal with the ear tag containing the relevant details will be transmitted on the phone instead of the current transfer of physical documents. This process change is expected to reduce claim settlement time, costs and fraud. As a result, money can be provided to farmers when they need it the most, thus enhancing customer value of the product.

138. Innovative delivery channels for payment of claims on behalf of the insurer are an important tool to expand the reach of the insurance market and facilitate active sales. However it is important to consider the delivery channel cost for the insurer and to note that even though the insurer pays an intermediary promptly, this does not mean that customer can get insurance compensation in an equally timely fashion.

139. Ratio analyses are useful tools to measure performance of insurers provided the information is properly analysed, for example the time to payment and loss ratios. Low claim ratios indicate a (considerable) imbalance between paid-out claims and premium-income. This could indicate low value and/or low claim behaviour by customers, in particular when considering that the inclusive insurance market generally consists of first-time insurance users unaccustomed with using insurance to mitigate household risks and safeguard incomes. An excessive claim rejection rate might indicate that either the product is too complex, the underwriting is inadequate, the claim' procedures are too difficult, or some combination thereof. In any case, it should cause the supervisor to require an insurer to undertake an investigation into the causes of irregular ratios[75].

140. **The documentation requirements**. An additional issue is the type of documentation required to provide proof of loss in the case of an event. The cost and difficulties in obtaining documents required by the insurer will also affect the claims settlement process and outcome. For example, requiring an autopsy report in case of death can be a serious impediment. Also, requirements for complex and expensive health exams could make the indemnity impossible for inclusive insurance customers. The enhancement of inclusive insurance therefore calls for the establishment of proportionate document requirements. Established simplified documents for each type of coverage (e.g. simplified claims form) will make the claim settlement more efficient and the process more understandable and transparent for the insured. Also, other forms of evidence should be taken into consideration such as a statement from a community leader, police report, hospital report etc.

141. **The nature of the compensation.** Another aspect relevant to claims settlement in inclusive insurance is the type of compensation offered, in particular of an in-kind nature which can for instance be the case in funeral insurance and medical health insurance. As indicated in section 3.1 benefits-in-kind in funeral policies may benefit the customer as (s)he is not required to organise some or any funeral services. However, in-kind compensation for funeral insurance might not be suitable if the insured has migrated. In some situations

[75] The Centre for Financial Regulation and Inclusion- Microinsurance in Brazil

funeral insurance sold through a funeral service provider will have entitlement to monetary compensation in case of migration or the need to move away from the original village for burial.

142. Claims management in health microinsurance is particularly challenging because effective health insurance requires the availability of efficient and accessible health services – be it publically or privately provided – and is subject to the complexities of the underlying health financing environment and the relationships and service level agreements between insurers and service providers. Most developing countries suffer from highly deficient health services. Where health services are unavailable or deficient, it undermines claims settlement and directly impacts the feasibility of expanding health insurance to a particular region.

Observed response(s) to the issues identified:

Standardised policy wording, limited exclusions and minimum document requirements

In Brazil, the coverage wording, documents requirements and risk exclusions of all microinsurance products are standardised by legislation. This can facilitate a common understanding of product features and a general growth of the insurance culture among the low-income population, which in turn is aimed at facilitating claims settlement

Terms for claims settlement

According to the legislation of some jurisdictions, the time limit for inclusive insurance claims settlement may be up to three times lower than traditional insurance. In some cases, late payment is subject to an interest rate. In India any delayed claim is subject to an interest rate of 2%. In Brazil indemnities are subject to updating values besides interest and penalty on late payments.

Peru: claims must be paid within 10 days

Ghana: claim to be accepted or rejected within 7 days of being submitted and, if accepted, paid within 10 days of the receipt of the claim.

Mexico: Claims should be paid within five working days

South Africa (proposed): All valid microinsurance claims should be paid within a period of 48 hours after the insurer received all the requisite documentation, with the qualification that claims may be paid in instalments if this was provided for in the contract.

Philippines: Insurance Memorandum Circular 1-2010 requires that claims for a microinsurance contract must be settled within 10 working days of receipt of complete documents by the provider. In addition, Circular 5-2011 requires microinsurance providers to report their claims settlement times (relative to the 10 days benchmark) to the commission as one of a set of standard performance indicators for microinsurance.

Remote / electronic payments

In Brazil the new microinsurance rules require that insurers using remote means include in the claim management process procedures such as: the evidence of the authorship and integrity of contractual documents forwarded by the insurance company; the correct identification of the policyholder and its beneficiary, ensuring the authenticity and integrity of their data and personal information; the validation of the receipt confirmation of documents and messages sent by the insurance company to the policyholder and beneficiary.

3.7 Complaints handling

143. According to ICP 19 the supervisor requires that insurers and intermediaries have policies and processes in place to handle complaints in a timely and fair manner[76]. The right to complain and any arrangements for handling policyholders' complaints, including an insurer's internal claims dispute mechanism or the existence of an independent dispute resolution mechanism should be disclosed by the insurer or intermediary[77].

144. The typical policyholder of an inclusive insurance policy is often not or not sufficiently aware of steps to take if treated unfairly by the insurer, or in other words is unable to use complaints-handling and dispute resolution mechanisms. He / she often has limited knowledge about the legal rights and obligations arising from an insurance contract.

145. It is essential that the inclusive insurance customer is aware, understands and can make effective use of the existing internal and independent dispute resolution mechanisms. The latter means that the customer has access to simple, affordable, transparent, timely, equitable and impartial complaints-handling and dispute resolution mechanisms.

146. Certain challenges can arise in respect of the implementation of complaints-handling mechanisms in inclusive insurance markets. Firstly, complaints-handling mechanisms may be expensive to maintain. Secondly, they may not be easily accessible for the low-income segment. Travel cost and time spent may be exorbitant compared to their salaries. For this client type, adequate and accessible complaints handling mechanisms are important. A web-based system may have limitations. Thirdly, sometimes parts of the insurance sector are not formalised and are therefore not regulated and supervised. This limits the scope for ensuring that there is an adoption and implementation of complaints-handling processes.

Observed response(s) to the issues identified:

In The Philippines, the Microinsurance Regulatory Framework (2010) adopted by the Insurance Commission (IC) establishes that complaints involving microinsurance must be acted upon within 5 working days from filing the complaint and a resolution reached within 45 working days from the time the case is submitted for final resolution. In Peru, the Microinsurance Resolution (14283/09) issued by the Peruvian Supervisor (SBS), establishes that microinsurance complaints must be resolved within 15 days. In Pakistan, the Securities and Exchange Commission of Pakistan (SECP) approved in 2014 the "SECP Microinsurance Rules". These indicate that all microinsurance-related complaints should be acted upon within 5 working days from the filing of the complaint. A resolution must be reached within 25 working days.

Customer awareness of redress options: The proposed microinsurance regime in South Africa includes the requirement that complaints-handling lines and ombudsman details be clearly stated in the policy summary. The SECP Microinsurance rules of Pakistan, provide the insurer's and the insurance ombudsman's contact details to the microinsurance policyholder at the beginning of the contract.

Internal complaints-handling mechanisms: In some countries, such as in Colombia, Peru, Brazil, Pakistan and Kenya, insurers are required to maintain internal complaint mechanisms. The SECP microinsurance draft rules highlight that insurers must ensure that microinsurance policyholders "*have a recourse avenue that is effective and straightforward*". To do so, insurers must make themselves easily accessible to policyholders and must set up effective internal complaints-handling mechanisms. Tanzanian draft regulation stipulates that "*[the] insurer shall determine and dispose complaints from microinsurance policyholders with speed and promptitude*."

[76] Standard 19.10
[77] Guidance 19.5.14

The Integrated Grievance Management System (IGMS) – A grievance redress monitoring tool for the IRDA in India: The IRDA created an online customer complaints registration repository, which allows policyholders to register and track the progress of their complaints. All insurers in India have integrated their online complaint logging systems with the IGMS, which is kept by IRDA. In this way, a complaint registered through IGMS will flow to the insurer's system as well as to the IRDA.

CONDUSEF – An external complaint-handling mechanism in Mexico: In Mexico, the Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros (the National Commission for the Protection and Defence of Financial Service Customers - CONDUSEF) has two mandates: to provide financial education and to provide a forum to advise on and resolve the complaints that financial customers make against financial institutions. The CONDUSEF publishes complaints statistics on its website.

Complaints recording in Colombia: In Colombia, the financial supervisory authority (Superintendencia Financiera - SF) publishes complaint statistics on its website on a monthly, quarterly, biannually and yearly basis. In doing so, the SF consolidates the complaints filed not only with it, but also with any supervised entities and the ombudsman. The statistics are organised by sectors, supervised entities and reasons. In addition, the SF also publishes statistics providing information about how the complaint was resolved and whether it was decided in favour of the customer or not.

Dispute resolution

The Alternative Dispute Resolution for Microinsurance (ADReM) in The Philippines: In July 2013, the IC adopted the ADReM which embraced mediation and conciliation as its preferred methods of dispute resolution. The applicable guiding principles to ADReM are: subsidiarity; procedural fairness; empowerment and self-determination; effective communication and reconciliation. The mediation-conciliation processes in microinsurance must follow the following parameters: lowest cost, accessibility, practical (appropriate for the microinsurance sector), effective and provided in a timely manner. There are different guidelines for the implementation of ADReM depending on the risk carrier; whether commercial insurance companies, Cooperative Insurance Societies (CIS) or Mutual Benefit Associations (MBA). In any event for all of them, the governing principles are confidentiality, competence, impartiality, consent and self-determination and the enforcement of any settlement agreement. Insurance companies, CIS and MBA must promote the use of mediation and conciliation amongst their policyholders in respect of disputes which arise from denied claims or those which are not fully paid within 10 working days. Commercial insurers, CIS and MBA must provide information on the outcome of cases referred to ADReM in their annual statements.

The insurance ombudsman in Peru: The insurers association of Peru, APESEG, has created a collegiate body which acts as an insurance ombudsman (the "*Defensoria del Asegurado*"). In order to have jurisdiction, the claims' threshold is up to a maximum of US$ 50,000. Any decisions are binding on insurance companies but are not binding on customers. Statistics on dispute resolution are available in its annual reports; however, the names of the relevant companies are not mentioned.

The ombudsmen in some countries in Africa: Swaziland has recently established an insurance adjudicator and Tanzania and Zambia have indicated that they are in the process of establishing an industry ombudsman.
The scope of the insurance ombudsmen in India: India has insurance ombudsmen in different states who conduct such "village programs" where they visit areas to offer a service of this kind to complainants. **Small complaints arbitration process in El Salvador**: Article 136A of the customer protection law provides an expeditious and free arbitration procedure in cases where the amount of the complaint is less than US$ 3,000.

The three-man arbitration tribunal in Nigeria: The guidelines for microinsurance operators of the National Insurance Commission (NIC) of Nigeria adopted arbitration as the preferred method for resolving disputes arising in respect of microinsurance in 2013. If it is not possible to resolve a dispute through arbitration, the case will be referred to the NIC for adjudication.

Online dispute resolution – the way forward? Even though there is no evidence that ODR[78] is currently being used in emerging insurance markets as a mechanism to settle disputes, there are some examples in certain developing countries where electronic communications and ICT has been used to provide legal advice and in some cases for dispute resolution. For instance, in Kenya, a pilot using a hybrid system based on SMS/online mechanisms has been launched by HiiL Innovating Justice, Kituo Cha Sheria and Space Kenya under the name of "M-sheria". Users send a legal question to M-sheria (free of charge) by SMS. The question is then answered directly by SMS and it is also published anonymously on the M-sheria website. Given that mobile phones and other ICT are increasingly involved in the provision of insurance in emerging insurance markets, there is clear potential for also using such platforms for ODR-related to insurance.

[78] According to the draft rules on online dispute resolution for cross-border electronic commerce transactions of the UNCITRAL, On Line Dispute Resolution (ODR) is defined as "*a mechanism for resolving disputes facilitated through the use of electronic communications and other information and communication technology*".

4. Conclusions and Recommendations

147. Conduct of business supervision in inclusive insurance aims to ensure a suitable conduct of business by insurers in order to protect the interests of inclusive insurance customers. As these customers are often first time users of insurance, it is essential to establish and maintain their confidence in the insurance industry.

148. A deep and comprehensive understanding of inclusive insurance aspects and contract lifecycle stages will support supervisors in complying with ICP 19 on Conduct of Business, since they must set requirements for the conduct of business of insurance to ensure that customers are "treated fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied".

149. Given the differences between inclusive insurance markets and their customers and conventional insurance markets, new challenges arise which need to be considered by regulators and supervisors when designing and implementing inclusive insurance conduct of business supervision in their jurisdictions.

150. When it comes to providing an adequate level of **customer protection** through conduct of business supervision, the particularities and characteristics of each jurisdiction's insurance sector needs to be taken into account. These include the level of financial education of the population, supervisory enforcement powers, functioning of the court system, existence and operations of customer protection institutions, the level of market development and the existence of alternative dispute resolutions mechanisms among others issues.

151. Customers' protection concerns apply at all stages of the product **lifecycle**, thus are relevant during: **product development, distribution, customer acceptance, disclosure of information, premium collection, claim settlements and complaints handling**. Those should be considered both by regulators, when issuing the relevant legislation, and supervisors, in monitoring activities, in order to assure appropriate conduct of business for inclusive insurance purposes.

152. It is important that there is sufficient attention paid to **customer value** in inclusive insurance markets[79]**.** This should include avoiding the launch of products that have little value to the inclusive insurance customer and emphasising financial education initiatives aimed at ensuring a good understanding of insurance contracts by customers. Supervisors should consider their role in ensuring customer value for example through monitoring or reporting mechanisms and addressing any concerns as part of their conduct of business mandate.

153. The use of a variety of intermediation channels and the presence of a variety of actors fulfilling different functions in the value chain, including aggregators, brokers/agents and administrators in inclusive insurance **business models** cannot be ignored and should not be discouraged given the important role they can play in increasing access to insurance; however it is important that they are included in the regulated insurance sphere and that conduct of business considerations are applied. Of particular note here is the increasing influence of digital financial inclusion especially via mobile phones. Therefore, the main features of new business models should be closely monitored including the risks posed by new technologies, and supervisors should ensure that these risks are being well managed, and develop appropriate supervisory strategies.

154. **Payments** are also a crucial subject for consideration by regulators and supervisors interested in developing safe and efficient inclusive insurance markets. It concerns both premium collection and payment of claims processes. Also in this area the level of customers' financial access and the complexity of the risks that the population in emerging market economies is exposed to should be considered.

[79] See paragraph 5.

155. The **claim settlements** processes should furthermore be well regulated and closely monitored, since their efficiency and effectiveness could affect the confidence in the insurance market and therefore inclusive insurance policy objectives.

156. Finally, supervisors should seek the appropriate balance when implementing the most suitable regulatory approach. Requirements and rules should be based on the principle of proportionality, considering each jurisdictions context and national strategic objectives, with adaptions made to ensure that the needs of the inclusive insurance customer can be most appropriately addressed and its interests protected.

157. The establishment of agreements and arrangements with relevant supervisory authorities and customer institutions can be a useful instrument for ensuring customers are adequately protected. In particular this need may arise if multiple authorities have a responsibility in the area of customer protection and conduct of business supervision is fragmented.

Acknowledgements

158. This paper has been drafted on the basis of the collective knowledge and experience of various partners working in the area of inclusive insurance and access to insurance. The input of the regulators and supervisors was provided through the Financial Inclusion Working Group of the IAIS. The A2ii[80] and the Microinsurance Network[81] arranged the contributions from the perspective of practitioners which includes the knowledge and insights from the country diagnostics conducted under the aegis of the A2ii which were synthesised by the Centre for Financial Regulation and Inclusion (Cenfri) and used to inform the development of this paper.

[80] www.access-to-insurance.org.
[81] www.microinsurancenetwork.org

Annex - Background information on risks relating to the business models

Each risk is the result of a number of factors or drivers relating to the nature of the business models and the context within which they develop. The table below lists and describes the drivers that lead to the six distinct types of risk. With the exception of prudential risk, these risks are part of the overarching concept of conduct of business risk. To enable a better understanding of the nature and impact of risks to consumer protection in the inclusive insurance space and as these risks are the result of different risk drivers found in inclusive insurance market contexts these risks have been defined as subsets of conduct of business risk.

Table 1. Business model risks[82]

Type of risk	Drivers
Prudential risk - Risk that insurer is not able to keep its promises & deliver the benefits to the beneficiaries .	1. Capacity (risk management capacity, financial management capacity, product design capacity, etc.) of the underwriter - which leads amongst others to the design of inappropriate products 2. Lack of supervision of the underwriter - which can be caused by the informality of the underwriter (it is not licensed and therefore not subject to supervision), or the lack of capacity of the supervisor 3. The underwriter is too small, particularly in relation to the size of the risk pool 4. The underwriter has inadequate corporate governance 5. Lack of actuarial data for the particular target market to enable sound pricing.
Aggregator risk - The risk of reduced customer value and inappropriate products being sold to customers when an insurer accesses the aggregated customer base of a non-insurance third party to sell its products through that channel.	1. Disproportionate bargaining power between insurer and aggregator where the latter owns the customers through a prior business relationship (includes situation where aggregator gives access to customer base on an exclusive basis to one insurer); need for brand protection can act as mitigating factor. 2. Bargaining power of the aggregator vis-a-vis the customer is inserted in the purchasing decision between the insurer and the customer - especially prevalent in credit 3. Financial risks and interests of the aggregator, e.g. credit risk, risk of product deficiency 4. Contractual relationships between the insurer and aggregator and insured 5. Limited availability of mass distribution channels in a particular market
Sales risk - Risk that the salesperson will misrepresent the product to the customer or sell a product that the customer does not need	1. Sales persons have insufficient knowledge and skills to sell insurance products of the kind sold to the target market 2. Incentives for the salespersons are misaligned with the interests of the customer, for example: there is no incentive to ensure policy renewals (such as up front commissions only); the commissions are capped at a level that discourages sales effort; or the incentives are

[82] Source: synthesised from cross-country synthesis exercise across diagnostic studies to date (A2ii 2013, forth-coming)

Type of risk	Drivers
	to sell the product or service in which the insurance is embedded (such as credit) rather than the insurance product. 3. Inadequate accountability of sales persons
Policy awareness risk - Risk that the insured is not aware that he or she has an insurance policy and is therefore unable to lodge a claim, should the risk event occur. (A higher risk exists in the case of embedded products and public policy initiatives.)	1. Absence of a specific sales action, for example in the case of automatic enrolment for a publicly funded insurance benefit or a loyalty-type insurance product. 2. "Tick box" sales process, for example with embedded products. 3. Low level of financial literacy on the side of the customer.
Payment risk - Risk that the premium will not reach the insurer, that the premium will not be paid on the due date or that the cost of collecting the premium is disproportionate	1. Presence of an intermediary between the insurer and aggregator or customer who can delay payment of the collected premium to the insurer or neglect to make the payment at all. 2. Seasonal or irregular income of customers which cause them to miss monthly or other set dates for payment of premiums. 3. Mandatory payment system requirements that apply to premium collection, for example that it has to be paid through a bank.
Post-sale risk - Risk that customers face unreasonable post-sale barriers to maintain their cover, change products, make enquiries, submit claims, receive benefits or make complaints	1. Customers with limited knowledge and experience of insurance. 2. Lack of reasonable access to the insurer or the intermediary after the sale (low-income customers prefer personal contact - a person or a branch to go to). 3. Faceless insurers (from the customer's perspective) who underwrite policies distributed by third parties. 4. Unscrupulous insurers, notably in countries with compulsory insurance, coupled with inadequate supervision. 5. Manner in which group underwriting is done, notably when there is selective non-renewal of cover by insurers. 6. Incidence or past history of monopolistic insurance provision. 7. Risk can also come from the community, for example where there are cultural fears of autopsy and the insurance company requires an autopsy report to pay the claim on a life policy. 8. Unreasonable requirements from insurers to submit claims.

The specific characteristics of each of the business models, such as the number of entities involved in the value chain and each player's specific incentive structure, lead to different risks being more prevalent in different models – though each of the types of risks is likely to be present in some way in most models. The following matrix illustrates the risks particularly associated with each business model:

Table 2. Business model risk matrix[83]

	Prudential risk	Aggregator risk	Sales risk	Policy Awareness risk	Payments risk	Post sales risk
Individual sales			x		x	x
Proxy sales forces		x	x	x	x	x
Compulsory sales	X			x		x
Group decisions		x		x	x	
Local self-help	X					
Auto enrolment				x		x
Passive sales			x			x
Service-based sales	X		x			

[83] Source: cross-country synthesis exercise across diagnostic studies to date (A2ii 2013, up-coming)