



# IAIS

INTERNATIONAL ASSOCIATION OF  
INSURANCE SUPERVISORS

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MEMBERS AND OTHERS

## Compiled Comments on *Draft Issues Paper on Conduct of Business in Inclusive Insurance*

22-Jun-15 to 08-Aug-15

**13 October 2015**

Organisation	Jurisdiction	Confidential	Comments	Resolution of comments
<b>- General Comments on the Paper:</b>				
Allianz SE	Germany	No	The paper is well written and seems rather complete.	Noted with thanks
Global Federation of Insurance Federations (GFIA)	Belgium	No	<p>The IAIS' recent paper, Conduct of Business in Inclusive Insurance, effectively identifies the important role that insurance plays in reducing poverty and improving social and economic development. It also helps governments to fulfil their objectives in things like public health enhancement or dealing with the negative effects of climate change. To achieve these objectives, the paper notes, supervisors must look "for an appropriate balance between regulation, enhancing access to insurance services and protecting policyholders". GFIA fully agrees with this statement.</p> <p>GFIA is sure that the insurance industry can and should continue to be a strategic partner to global policymakers in solving, through the access to insurance, some of the most sensible problems faced by population.</p> <p>GFIA strongly supports the idea that, to increase financial inclusion, regulation must balance the legitimate concerns regarding consumers' protection with measures that promote and facilitate the development of microinsurance. The particular microinsurance consumer profile, characterized by low income and low financial literacy, justifies the need to have an appropriate conduct of business regulation framework that, without discouraging microinsurance market development, protects the consumer. It is important, therefore, for the sake of the healthy development of a microinsurance market to prevent and avoid costumer abuse while providing value added products to policyholders.</p> <p>As such, many of the regulatory recommendations addressed in this</p>	Noted. In any possible follow-up work by the IAIS – in particular any application guidance – due care should be taken to avoid unintended consequences that run counter to the objective of policyholder protection.

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			<p>paper are very important for ongoing public policy discussions, which are currently transforming many national regulatory frameworks. The product life cycle approach used in the paper, which allows a comprehensive view of the different stages involved in microinsurance conduct of business regulation, is very useful to address all the regulatory trends suggested by the IAIS.</p> <p>The paper suggests a number of regulatory recommendations that could provide a good balance between financial inclusion and consumer protection. However, it should be noted that some regulatory concerns could carry several unintended consequences:</p>	
<b>4 - Comment on paragraph 4:</b>				
National Association of Insurance Commissioners	USA	No	<p>Understanding the term "inclusive insurance" is critical to this paper - a good explanation is provided in footnote 11, however providing it in a more prominent position towards the beginning of the paper would be very helpful. Suggest either incorporating the text of footnote 11 into paragraph 4 or else making it a new paragraph following paragraph 4.</p>	Agreed. A new paragraph 5 has been added.
<b>- General Comment on the Features of the Inclusive Insurance Market Section:</b>				
Allianz SE	Germany	No	<ul style="list-style-type: none"> <li>- It could be mentioned that customers often confuse savings with insurance (expecting a return of premium)</li> <li>- No or low literacy and numeracy is a big issue! Many people simply can't read policy conditions etc.. That doesn't come out clearly here. It is somewhat mentioned later in the paper (e.g. in paragraph 44).</li> <li>- Culture plays a strong role in the (mis)perception of insurance, e.g. beliefs that talking about a risk will cause that risk to happen.</li> </ul>	<p>Agreed. Included in paragraph 13.</p> <p>Agreed. Also included in paragraph 13.</p> <p>Agreed. Included in paragraph 17.</p>
<b>12 - Comment on paragraph 12:</b>				
Allianz SE	Germany	No	- Quote: "the low-income population is often not aware or is uninformed about the risks they face"	Agreed. Included in paragraph 13

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			<ul style="list-style-type: none"> <li>- This statement is too general. Low-income people are very aware about the risks they face and consequently behave quite risk averse. They also manage multiple social and financial relationships to get their risks under control.</li> <li>- What is true is that they may not always make the optimal choices due to lack of information, access etc.</li> </ul>	
<b>36 - Comment on paragraph 36:</b>				
Allianz SE	Germany	No	- The term "mobile wallet" may not be correctly used here. It usually refers to actual electronic money stored on phones, not to mobile airtime. I recommend to cross-check that.	Agreed, wording added to paragraph 43
<b>44 - Comment on paragraph 44:</b>				
Allianz SE	Germany	No	<ul style="list-style-type: none"> <li>- Should mention the data privacy and cybercrime risk</li> <li>- This risk could be highlighted more. Different from conventional insurance, large inclusive insurance schemes quickly reach millions of people. Data leakage and misuse thus can take a very large scale very quickly.</li> <li>- Moreover, low income customers are often uninformed about the importance of data protection, potential of abuse etc.</li> </ul>	Agreed. Wording added to paragraph 46.
<b>52 - Comment on paragraph 52:</b>				
GFIA	Belgium	No	Coverage: The paper notes that supply-driven products, such as credit-life insurance, are only designed to meet supplier needs. This may translate, according to the paper, into suboptimal consumer protection and abuse. In this regard, a fundamental distinction between attached sales products and embedded products must be made. Attached sales products frequently do not solve any consumer need; it is only a way to force the consumer to buy a product that they do not want and that, probably, provides no added value to them. On the contrary, insurance embedded products, such as credit life	The comment is noted. The wording of paragraph 54 is amended. Paragraph 55 already recognises the interest of the customer.

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			insurance, generate added value for the consumer, because they respond to a particular need. These kinds of products play an important role in enhancing financial inclusion. Credit life products, for example, reduce the risk premium that banks charge to low income populations. Without these kind of guarantees, which provide legal certitude to lenders, many loans for poor people would simply not be given. For this reason, the regulation should make an explicit differentiation between attached sales and insurance embedded products, and be very careful to not hinder the objectives for which the later were created.	
<b>59 - Comment on paragraph 59:</b>				
GFIA	Belgium	No	Terms and conditions: GFIA agrees that, in order to avoid restrictions in innovation and the provision of value added products, regulatory prescriptions should not be excessively detailed. The regulation, if well designed, could foster financial inclusion through appropriate conditions related to design, allowable exclusions, or restrictions of the maximum term length. However, if these elements are not correctly balanced, many unintended consequences in consumers' prejudice could arise.	Noted. An additional sentence was added in paragraph 61.
<b>63 - Comment on paragraph 63:</b>				
GFIA	Belgium	No	Pricing: GFIA agrees that one of the most important elements for microinsurance development is affordability. Therefore, prices should not be prohibitive and payments should consider the irregular income flows of the potential consumers. However, regulation must avoid proscribing irrational price caps which may render microinsurance unprofitable, which would negatively affect potential consumers. Some products, such as catastrophic microinsurance, should also have deductibles for mitigating moral hazard and adverse selection risks.	Noted. Wording added in paragraph 64.

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<b>70 - Comment on paragraph 70:</b>				
GFIA	Belgium	No	Skills and competence of the sales force: Having a well-trained sales force, which can advise a consumer about which insurance product best meets their needs, is crucial to consumer protection. However, as stressed in the paper, microinsurance sales force regulation should not have the same burdensome requirements as traditional insurance. If too much regulation is imposed, unintended consequences could arise, such as not registering all sales persons for insurance distribution purposes. Regulation should also not disincentive innovative distribution channels development.	Agreed, wording added to paragraph 73.
<b>82 - Comment on paragraph 82:</b>				
GFIA	Belgium	No	Information disclosure: GFIA agrees with the need to have a clear and transparent communication scheme in order to guarantee that consumers take an informed decision. However, regulation regarding information disclosure should not be too burdensome, as it could unnecessarily increase companies' operational and monitoring costs. This could translate into more expensive premiums and, therefore, the unintended consequence of reducing financial inclusion. Regulation must reach a balance between quality and quantitative information disclosure requirements. It is better to have important information, even if it is not all the information available, than a lot of irrelevant information.	Noted. A sentence is added to paragraph 84.
<b>124 - Comment on paragraph 124:</b>				
GFIA	Belgium	No	Premium collection: The use of mobile phone technologies has helped to reduce transaction costs and entry barriers associated with insurance contracting. Many low-income people do not have this kind of technology, therefore, agents with their mobile phones play an important role with regard to premium collection. Consumers should be protected from any kind of abuse that could arise from these kinds	Agreed. No change to the text considered necessary.

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			of premium collection methods; however, regulation should not hinder it by imposing burdensome requirements that, in the context of microinsurance market conditions, could not be properly met. In many low-income environments, banking penetration is insufficient, and therefore people do not have the means to pay their insurance premiums. In this context, these kind of innovative premium collection methods solve structural impediments that decreases financial inclusion.	
<b>128 - Comment on paragraph 128:</b>				
GFIA	Belgium	No	Claims settlement: The claims payment process should be as simple and transparent as possible. The documentation requirements for proving the claim, although necessary, should be as simple as possible. GFIA agrees with the statement that claim payments, for this kind of market, should be almost automatic. GFIA therefore supports the development of parametric (indexed) and event related products that highly simplifies the claim settlement process.	Noted. No change to the wording considered necessary.
<b>- General Comment on Conclusions and Recommendations:</b>				
Allianz SE	Germany	No	<ul style="list-style-type: none"> <li>- The need to balance between stringent customer protection and room to innovate needs to be carefully treated by regulators and supervisors. Over-regulations and supervision can stifle the innovative drive that this market segment needs.</li> <li>- We would recommend that supervisors (and maybe regulators) go down to the market and meet customers, to get a more hands-on experience regarding the issues discussed in this paper.</li> <li>- We would also recommend to identify those measures that need the least effort but can potential have the highest leverage on good Conduct of Business</li> <li>- One example would be regular scrutiny of claim ratios</li> <li>- Mystery shopping</li> </ul>	Noted. The Conclusions and Recommendations in the paper are of a more general nature and less specific than the suggestions made in the comment. However, they do allow these practices if a specific regulator / supervisors choses to. The specific nature of the suggestions lends itself less for inclusion in this section.

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			<ul style="list-style-type: none"> <li>- Where allowed, regulators can also consider taking an active role to promote innovation on Conduct of Business</li> <li>- E.g. financial literacy contests, awards etc</li> <li>- Facilitating access to government controlled distribution (e.g. via tender) in return for strict adherence of CoB requirements (the Indian e-Government CSC model is a close example of that)</li> </ul>	