INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

APPLICATION PAPER ON THE REGULATION AND SUPERVISION OF MUTUALS, COOPERATIVES AND COMMUNITY-BASED ORGANISATIONS IN INCREASING ACCESS TO INSURANCE MARKETS

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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.

About IAIS Application Papers

Application Papers provide additional material related to one or more ICPs, ComFrame or G-SII policy measures, including actual examples or case studies that help practical application of supervisory material. Application Papers could be provided in circumstances where the practical application of principles and standards may vary or where their interpretation and implementation may pose challenges Application Papers can provide further advice, illustrations, recommendations or examples of good practice to supervisors on how supervisory material may be implemented.

This paper was prepared by the Financial Inclusion Working Group in cooperation with the Access to Insurance Initiative.

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

Application Paper on Regulation and Supervision of Mutuals, Cooperatives and Community-based Organisations in increasing access to Insurance Markets

Contents

List of acronyms

A2ii	Access to Insurance Initiative
AMICE	Association of Mutual Insurers and Insurance Cooperatives in Europe
CAGR	Compound annual growth rate
CGAP	International Association of Insurance Supervisors
ICMIF	International Cooperative and Mutual Insurance Federation
ICP	Insurance Core Principle
IFSB	Islamic Financial Services Board
ILO	International Labour Organization
MCCO	Mutual, Cooperative and Community-based Organisation
MCR	Minimum Capital Requirement
MIN	Microinsurance Network
NGO	Non-Governmental Organisation
P&L	Profit and Loss
PCR	Prescribed Capital Requirement
SMIU	Small mutual insurance undertaking
UN	United Nations

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.

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[4] Joint Working Group on Microinsurance, succeeded by the IAIS-Microinsurance Network Joint Working Group on Microinsurance, and, since 2009, the Access to Insurance Initiative. Prior to this paper, four 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.
- I**ssues Paper on the Regulation and Supervision of Mutuals, Cooperatives and other Community-based Organisations in increasing access to Insurance Markets (October 2010)**: As follow-up from the first paper, this paper discusses the key elements of such organisations that are relevant to considering the approach to their regulation and supervision. This paper is superseded by this Application Paper on Mutuals, Cooperatives and other Community-based Organisations in increasing access to Insurance Markets.
- **Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets (October 2012)**: This paper provides 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 on 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.
- **Paper on Issues in Regulation and Supervision of Microtakāful (Islamic Microinsurance) (November 2015)**: This paper was developed as a joint initiative with the Islamic Financial Services Board. Its main objective is to identify the practices and models used for offering Microtakāful products, and the challenges and potential issues arising from Microtakāful transactions for regulation and supervision.

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[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] Consultative Group to Assist the Poor

- **Issues Paper on Conduct of Business in Inclusive Insurance (November 2015)**: The objective of this paper is to identify 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.

4. **About this paper.** This paper is about mutuals, cooperatives and community based organisations (MCCOs). The objective of the paper is to raise awareness of policymakers, regulators and supervisors of the role the MCCOs can play in enhancing access to insurance. At the same time, the purpose of this paper is to provide application guidance on the way the ICPs could be applied in a proportionate manner which should contribute to removing unnecessary barriers by disproportionate regulation and supervision. Therefore, this paper and in particular the application guidance included in section 4 is applicable to MCCOs operating as insurers regardless of the size of its business or organisation.

5. A diverse range of institutions are commonly described as MCCOs, including mutuals, mutual benefit organisations, cooperatives, friendly societies, burial societies, fraternal societies, community-based organisations, risk pooling organisations and self-insuring schemes.

6. MCCOs fulfil an important role in inclusive insurance markets. As outlined in the 2010 IAIS Issues Paper on the Regulation and Supervision of Mutuals, Cooperatives and other Community-based Organisations in increasing access to Insurance Markets, their member-based nature raises a number of issues that may require a dedicated regulatory and supervisory response. Many MCCOs operate as insurers; however, some also provide productive support, or administrative, educational and distribution services. Not all MCCOs need to function as underwriters (in a formal or informal way). Some MCCOs can be considered "aggregators", i.e. entities that bring together people for non-insurance purposes (for example retailers, service providers, utility companies, membership based organisations 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-outs.[5]

7. MCCOs have distinguishing features that set them apart from commercial insurers, such as the fact that they are member-owned and apply principles of democracy. Their ability to operate independently as stand-alone entities in remote and rural areas without long distribution lines makes them a suitable business model for improving access to insurance. In addition, since MCCOs are member-owned they can rely on the trust of their members, are willing to meet the needs of their members and are therefore can fill a gap for those who are un- or underserved both in rural and suburban areas. MCCOs can overcome geographic, cultural, service and product design challenges which other more commercial insurers might not be able or willing to address in order to provide insurance to low income populations.

8. Also typical for MCCOs is that each entity pools its members' risks, as opposed to engaging the underwriting services of an insurer. The MCCO collects the premiums from its members and pays out the claims itself. Therefore, in principle, funds are retained and redistributed within the entity. Members will pay premium or contributions into a pool held by the MCCO. These payments are used to cover the expenses such as claims made by members, the funding of provisions, and the financing of various operating costs. As an MCCO does not generate profits to be paid out to shareholders as dividends, any surplus is reinvested in the MCCO or possibly paid out to or used to the benefit of its members. However, if the financial results of the MCCO show a deficit the members may – in accordance with the provisions in the articles of association or by-laws - be called to make supplementary

[5] See Paragraph 32 of the Issues Paper on Conduct of Business in Inclusive Insurance

payments. Alternatively, the entitlement to loss compensation may be reduced to meet the available budget.

9. This typical mode of operation has developed over time as MCCOs often originate from solidarity and charity initiatives amongst social or professional groups where in the case of a misfortune or event – like a fire to a farm or a death of a breadwinner – a collection would be taken up for the benefit of those affected by the incident. In the course of time, these practices have been professionalised and MCCOs nowadays often/generally base their business on sound insurance technical methods and practices including for premium calculation.

10. The year 2012 was proclaimed by the United Nations as the International Year of Cooperatives (Resolution 65/184). General Assembly Resolution 66/123 recognises that cooperatives in their various forms "are becoming a significant factor of economic and social development and contribute to the eradication of poverty"[6] and refers to cooperatives as "sustainable and successful enterprises that contribute to employment generation, poverty reduction and social protection, across a variety of economic sectors in urban and rural areas". The UN Secretary General reported that cooperatives "through mutual companies, (…) provide social security protection in the form of property / casualty insurance, medical insurance, and life insurance.[7]

11. In the Pittsburgh Communiqué (September 2009), the G20 noted that the leaders committed to "improving access to financial services for the poor" including to "support the safe and sound spread of new modes of financial service delivery capable of reaching the poor". The experience of a number of countries has been that MCCOs can be one way to achieve these objectives as an active part of the market.

12. This paper supersedes the Issues Paper on the Regulation and Supervision of Mutuals, Cooperatives and other Community-based Organisations in increasing access to Insurance Markets (October 2010). It is recommended that supervisors, regulators and policymakers consider this application guidance to contribute to enhancing access to insurance and the development of insurance markets by recognising the potential of MCCOs and by avoiding or removing unnecessary barriers in disproportionate regulation and supervision.

13. The paper does not address the special case of insurers formed to provide Takaful. The IAIS and the Islamic Financial Services Board (IFSB) have jointly issued the paper Issues in Regulation and Supervision of Takāful (Islamic Insurance) (August 2006) as well as the Paper on Issues in Regulation and Supervision of Microtakāful (Islamic Microinsurance) (November 2015). The IAIS continues to collaborate with the IFSB with respect to standards development.

14. Throughout this paper, examples or observed responses have been included. These examples and observed responses 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.

15. **Structure of the paper.** This Paper is structured as follows:

- Section 2 provides a description of the main features and background of the MCCO sector. This should assist in providing an adequate understanding of the context in which the ICPs need to be applied in a proportionate manner. For that purpose this section provides a definition of MCCOs and describes the key defining characteristics and the range of organisational forms. Also, Federations, Associations, Groups and Apex organisations

[6] http://www.un.org/en/events/coopsyear/index.shtml / http://undesadspd.org/Cooperatives/UNDocumentsonCooperatives.aspx

[7] "Cooperatives in social development and implementation of the International Year of Cooperatives", 13 July 2012 (68/168)

that are sometimes used are discussed as these might affect the application of some ICPs and call for specific guidance. Finally in this section details on the quantitative size of the MCCO sector are provided.

- Section 3 discusses the role of MCCOs in creating improved access to insurance markets.
- Section 4 deals with relevant ICPs and contains the application guidance. After a general section on proportionality, the ICPs are for this purpose clustered into: Formalisation and Licensing; Corporate Governance; Capital Requirements and Capital Resources; Portfolio-transfers, mergers, demutualisation and winding-up; Supervision general, Supervisory Review & Reporting.

2. Description of the MCCO sector

16. This section provides a description of the main features and background of the MCCO sector, which should assist in an adequate understanding of the context in which the ICPs need to be applied in a proportionate manner in particular in order to further enhance access to insurance.

2.1 General Definition of MCCOs and Key Defining Characteristics

17. Mutual organisations exist across the world, both in the developing as well as in developed nations. In developing countries, at times they may appear as voluntary associations for pooling money to share risk or to assist each other during adversity, such as death. In the developed countries, mutual societies though formed voluntarily are primarily formal institutions that operate and compete in the same markets as commercial insurers. A range of financial services including insurance, pensions, savings and credit are provided through them either to their members or to the public.

18. There is no commonly agreed definition of mutuals since jurisdictions define mutuals based on the perspective that they may have developed while working with them. Mutuals have been described by the European Commission[8] as "*voluntary groups of persons (natural or legal) whose purpose is primarily to meet the needs of their members rather than achieve a return on investment*."

19. In the UN Secretary General's report "Cooperatives in social development and implementation of the International Year of Cooperatives",[9] the following types of cooperatives are distinguished with related benefits, socio-economic effects and development impact:

Type of cooperative	*Direct benefits to members*	*Socio-economic effects*	*Development impact*
Consumer cooperative	Access to basic goods and services at near as possible to cost price	Income goes further and savings are made. This encourages expenditure in other areas — nutrition, health care, education	Lower mortality and morbidity in women and children. Higher rates of school attendance (especially for girls)
Producer cooperative	Higher price for product, higher profit, stable and guaranteed income	Increased capability, ability to spend on meeting basic needs (education, health, nutrition, life insurance). Ability to plan for the future, expand the business, take risks	Increased productivity, diversification of economy, financial "deepening", boost to rural economy (farming), improved health and safety (urban economy)
Employee-owned (worker) cooperative	Decent work, greater return to labour, job protection, employee control	Increased capability, higher and more stable income leading to expenditure on meeting basic needs (education, health, nutrition etc.). Increased opportunities for training	Reduction in unemployment, improved skills base, increased output/GDP, export earnings, improved health and safety

8 http://www.europarl.europa.eu/document/activities/cont/201108/20110829ATT25422/20110829ATT25422EN.pdf

9 Report of 13 July 2011 (66/136); source of the table: Johnston Birchall, discussion paper presented at the expert group meeting on cooperatives in a world in crisis, New York, 28-30 April 2009.

While recognising that the term "cooperative" in this UN Secretary General's report encompasses mutuals, financial cooperatives and insurance cooperatives/mutual companies which could be considered as consumer cooperatives providing access to finance / insurance with lower prices allowing for savings or funds to be kept in the group as well as providing the development benefits as shown in the table (top right). However, both of these types of cooperatives can also be considered to serve the objectives of mutuals through their socio-economic effects and developmental impact.

20. The International Cooperative and Mutual Insurance Federation (ICMIF) have gone a step further to define mutual insurance as inclusive insurance. According to ICMIF[10]: *"Mutual microinsurance is a mechanism to protect people against risk in exchange for payments tailored to their needs, and in a manner where they participate in the design, development, management and governance of such product, services or institutions. Mutual microinsurance is deemed to be inclusive as it encompasses all types of low income or marginalized groups which may not fall under the conventional microinsurance definition".* The Association of Mutual Insurers and Insurance Cooperatives in Europe (AMICE) [11] defines "Mutual and cooperative insurers, i.e. *insurers in the legal form of a mutual or a cooperative, as owned or controlled and governed by their members. Their objective is to insure their members, natural or legal persons, against risks they face*." According to the International Labour Organization (ILO) (2001)[12] "*a mutual health organization is a non-profit voluntary association of people, operating on the basis of solidarity between all its members. By means of its members' contributions, and based on their decisions, the mutual health organization organizes insurance, mutual aid and solidarity measures aimed at insuring against risks related to illness, bearing the consequences and promoting health*."

21. Therefore, it is clear that different definitions have extended the definitional scope of mutuals to include organisations that operate on mutual/cooperative principles without being restricted by legal definitions - of which there is a wide variety across the globe, some of which are particular to one country alone.

22. It is relatively easier to define the cooperatives. The most commonly agreed upon definition is from the World Cooperative Monitor (2014) stating that a cooperative is "*an autonomous association composed mainly of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise which acts according to internationally agreed upon values and principles as outlined by the International Co-operative Alliance. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership".*

23. Through the review of the above definitions, it is possible to derive some key defining characteristics of those MCCOs which are involved with insurance in one or another form, namely:

- **Member ownership**: At least some of the beneficiaries of the services provided by the organisation are, by virtue of their membership, also owners of the organisation or have powers similar to those held by owners in shareholder organisations[13].
- **Democracy**: By exercising ownership type powers, the members form the general assembly of the organisation and, through this forum, can exercise democratic rights on ultimate decision making such as the election of directors to the governing board.

[10] ICMIF 5-5-5 Mutual Microinsurance Strategy 2016
[11] AMICE Facts and Figures 2012
[12] www.ilo.org/wcmsp5/groups/public/@ed_protect/.../wcms_107727.pdf Mutual health organisations and micro-entrepreneurs' Associations Guide, Geneva, International Labour Office, 2001
[13] Member ownership in MCCOs is not identical to shareholder rights and obligations although it may carry many of the same opportunities such as the right to vote at annual meetings or appoint board members. Most critically, member rights in MCCOs are not usually able to be sold / transferred at will as is the case for shareholders.

- **Solidarity**: The extent to which members are seeking a beneficial outcome where the beneficial outcome is reliant on the membership of the group. This concept is particularly relevant to the issue of capital.
- **Created to serve a defined group and purpose**: The organisation is established and members become affiliated with the organisation through a common goal, purpose, or characteristic.
- **Not-for-profit**: The profit (or surplus) or loss (deficit) is accrued to the members. In the case of losses, there can be a variety of treatments depending on the regulation in each jurisdiction.

Membership

24. The element of member participation in the nature of ownership of the entity does suggest room for differences in the regulatory arrangements or supervisory focus. In particular, when the policyholders and the owners are, in effect, one and the same, then it can be argued the existence and management of any conflicts of interest are done so in the interests of policyholders whereas those of shareholders in a stock company are not as relevant as to a mutual insurer.[14]

25. There is, however, a complicating feature. In some cases, either legally or in practice, not all policyholders may have the same rights and the same effective representation on the board of directors. In some institutions there is a feature of partial ownership where some of the policyholders are members and owners whilst others are not. In such partial member ownership situations, there is a potential conflict between the member owners and the other policyholders who do not have ownership rights. In other cases, one or more categories of policyholders may be entitled to different ownership rights than others. It is possible that although the legal equivalence may exist between groups of members, there may be decisions required in the management of the organisation that have to weigh competing interests between groups of members - such as those with one type of insurance, and others with a different type or, in entities where insurance is not the core business purpose, and between those with insurance and those without insurance. In such situations, depending on the orientation of the decision making body, it may be that some potential conflicts would arise that need to be balanced.

Democracy

26. MCCOs are usually governed by boards elected or appointed by the membership in some fashion or another. It is often the case that considerable effort is taken to ensure that members have the right to be involved in the selection of the board, to participate in meetings of the general assembly of the membership, and make such decisions as the constitution of the organisation allocates to the general assembly.

27. In smaller MCCOs, achieving the democratic objective is easier than in larger ones. For larger or more geographically dispersed groups, MCCOs sometimes adopt a sub-electoral process such as on a regional basis or by groups of policyholders or by type of product or service, or some other means of ensuring that the voice of the members is represented at the general assembly. These processes can reinforce the process of democracy and strengthen the functioning of the democratic process even in very large organisations. Equally, it is

[14] Note that, in line with the broader definition used in the ICPs, policyholders includes beneficiaries. In particular, third party liability claimants are third parties but the protection of an insurance supervisory framework remains applicable and it is intended that it be read accordingly. With respect to any regulatory and supervisory adjustments for MCCOs, it needs to be recognised that third party beneficiaries are not usually members of a mutual organisation but the protection of the supervisory framework should extend to them.

important that such processes do not prevent the voice of ordinary members from being expressed at meetings. The manner in which the democratic process is put into effect can also be determined in association with the history or nature of the membership or the defined group and purpose that forms the organisation.

28. As the effectiveness of the democratic process of the membership reduces, there is an increasing potential for particular groups to capture the democratic process. The most usual concern is that the management might carry a greater weight than is desirable, thus creating an agency problem. In addition, the same result may occur between various groups of members where the access to the democratic process can be variable between them. One special case of different groups of members might exist when the state is a member of the organisation – a feature of some historic arrangements that continues in some jurisdictions.

29. A sound democratic process also depends on both the access of members to the voting process as well as their being informed and able to make the relevant decisions that come before them. The process of informing members of the content and timing of matters that they are to consider is as important as the process by which they actually can attend and exercise their voice.

Solidarity

30. MCCOs have, in most cases, a mutual or self-help origination and they provide a source of risk pooling for the membership. The consequence of this can be two sided. Although members benefit from the diversification of the risk pool, they may also collectively underwrite the performance of the pool with the implication that members will make additional contributions in the event that the financial performance of the pool requires such contributions. This concept, sometimes officially stated in the articles governing the MCCO and sometimes implied, is referred to as solidarity.

31. Solidarity can differ from the stock company equivalent where shareholders might be prepared to support losses but would not generally be required to do so further than a defined amount and could be considered to do so on commercial terms. For a MCCO, however, the decision to pay further amounts may be made on both commercial and other more social reasons reflecting the sense of solidarity between members of the group.

32. The strength of solidarity can vary and is closely linked to the other aspects discussed in this section.

33. Related to the issue of solidarity is the question around benefits being guaranteed, in other words the extent to which a possible claim is legally enforceable or can be mitigated or subject to a decision by the MCCO. Various options can occur:

- A claim is discussed by the group without any legal entitlement to compensation. The MCCO or the MCCO's Board or a council in the MCCO will discuss the merits of the claim with consideration for the member's personal need for assistance.
- Alternatively, the MCCO could limit any formal claim according to available funds in the MCCO – therefore limiting the legal entitlement of the member.
- In addition, to enable payment of claims the MCCO's internal regulation or By-Laws may give it the legal possibility to collect (additional) premiums / contributions from the members.

Discretionary Mutuals

A discretionary mutual is a mutual which does not engage in or carry out insurance or reinsurance business; where a member who suffers a loss resulting from a "qualifying" risk or contingency (i.e. one previously specified by the mutual as one which it may indemnify members against), can apply for a grant of assistance to meet all or part of the costs associated with such loss. The member, however, has no contractual or other form of legal or equitable right to receive any compensatory payment. The mutual has absolute discretion whether to indemnify a member, on the mutual principle, who suffers a loss resulting from a "qualifying" risk or contingency.[15]

In the United Kingdom, they can be involved in many different activities. They are not supervised by the Prudential Regulation Authority.

Examples of discretionary mutuals:

- The Military Mutual

Established in 2010 with no shareholders, The Military Mutual is run for the benefit of its members, meaning that surpluses can be used to support military community and causes.

The Military Mutual (TMM) offers a range of policies that cater to the needs of serving members, reservists and veterans from the Royal Navy, Army and Royal Air Force.

- The NFRN Mutual

The NFRN Mutual was established in 1999 offering cover to newsagents and other retailers, providing an alternative to conventional insurance. They were created by retailers for retailers to provide Members with competitive cover, good service and a sympathetic claims settlement ethos. The NFRN Mutual is a limited company.

- Unimutual

Unimutual is a member-owned company limited by guarantee. Unimutual Limited's AFS Licence became operational on 31 December 2003. Unimutual is a discretionary mutual authorised to issue its own financial product, which is membership of the mutual and risk protection offered to Members. Membership of the mutual and the protections offered to the Members are subject to the discretion of the Unimutual Board. Under its AFS Licence, Unimutual is also authorised to provide financial product advice and deal in general insurance products for wholesale clients. This means that, for risks for which it does not provide discretionary protection, Unimutual is licensed to arrange insurance for Members.

Since its small beginning in 1990 with four universities, Unimutual has grown to become the major provider of asset and liability risk protection to the higher education and research sector. Membership is now comprised of the majority of Australian universities, together with associated entities ranging from small residential colleges and conservatoria of music to large research entities.

- Benenden

Benenden Healthcare Society Limited is a hybrid form of discretionary mutual. Benenden is an incorporated friendly society, registered under the Friendly Societies Act 1992. The Society's contractual business (the provision of tuberculosis benefit) is authorised by the FCA. The remainder of the Society's business is undertaken on a discretionary basis and provides additional cover for its members by insuring the losses above the retention rate of the mutual.

34. The extent to which a legal entitlement exists may be a reflection of an evolution of an MCCO. The report "Evolving Microinsurance Business Models and their Regulatory

[15] Study on the current situation and prospects of mutuals in Europe, Final Report, Panteia, November 2012

Implications | Cross-country synthesis note 1" [16] of the Access to Insurance Initiative (A2ii) states: "The local self-help model represents the origin of insurance in many societies. It develops in the absence of appropriate or accessible formal alternatives, where people do not trust formal options, or when individuals prefer own provision on the basis of solidarity. Strong community ties are generally a pre-requisite to the development of the local self-help model."

Created to serve a defined group and purpose

35. MCCOs are usually formed by a defined group of people for a defined purpose. Often, legal requirements oblige that they maintain this definition of membership and/or purpose in an ongoing fashion such that new members are also part of the defined group or purpose.

36. The defined group or purpose of the MCCO may be core the insurance function. Alternatively, the insurance function may be ancillary and the core purpose may be something else such as, the mutual organisation of sales of agricultural products. The membership may have a common definition that is limited or broad and may be geographically close or dispersed.

37. Depending on the circumstances, the strictness of the definition of the group membership and purpose may be reflected as part of the regulatory or supervisory treatment or may influence how other aspects are considered. The definition may strengthen other aspects of mutuality or, in others, steps may be required to reinforce these aspects and ensure they are functional.

38. In the report "Evolving Microinsurance Business Models and their Regulatory Implications | Cross-country synthesis note 1" [17] of the Access to Insurance Initiative (A2ii) MCCOs are categorised in terms of microinsurance business models under "local self-help" characterised by the fact that "a group of persons (such as a mutual or another community-based organisation) pools its own risk." The report also states: "The biggest incentive for the self-help group to offer insurance to members is that members experience risks which they are unable to mitigate on their own, yet they do not have access to affordable formal insurance. The local self-help group model allows individual members to pool risk among members, thereby mitigating the financial impact of risks. In some instances an external party, such as an NGO or technical assistance provider may encourage the formation of groups and render some services to the groups." If the latter is the case both the group and the supervisor should be aware of business continuity risks connected with the discontinuation of the technical assistance. Alternative solutions should then be sought or preferably be pre-arranged for that eventuality.

Not-for-profit

39. MCCOs, by their nature, accrue surpluses (or perhaps deficits). These surpluses are maintained or distributed for the benefit of the members.[18] It is notable that this surplus accrual and maintenance can be for members collectively rather than individually and separately. Accrued surplus also has a characteristic of being maintained, at least to some extent, across generations of membership. In the long term, there may be some part of retained surplus that arose at a time when none of the current members held membership. Unlike the normal practice of shareholder based firms, the method of distribution may be more diverse for

[16] Source: Access to Insurance Initiative, 2014. Evolving Microinsurance Business Models and their Regulatory Implications | Cross-country synthesis note 1, p.20; Available at: https://a2ii.org/sites/default/files/reports/2014_08_08_a2ii_cross-country_synthesis_doc_1_final_clean_2.pdf

[17] Source: Access to Insurance Initiative, 2014. Evolving Microinsurance Business Models and their Regulatory Implications | Cross-country synthesis note 1, p.20; Available at: https://a2ii.org/sites/default/files/reports/2014_08_08_a2ii_cross-country_synthesis_doc_1_final_clean_2.pdf

[18] See also Paragraph 132

MCCOs. For example, distribution may be through benefit increases or premium reductions similar to participating products offered by shareholder firms but may also include investments in providing ancillary services or contributing to community projects oriented to improved well-being. Regardless of the method of distribution, issues of equity in the distribution may be critical.

2.2 Range of Organisational Forms and Definitions

Range of organisational forms included as MCCOs

40. For the purposes of this paper, MCCOs include a very diverse range of types of organisation and may be described differently in different jurisdictions. MCCOs may include organisations and institutions that are:

- not registered under any specific law or regulation;
- recognised under a specific law even if not distinguished for insurance purposes;
- recognised under the insurance law itself.

41. They may be described as:

- Mutuals
- Mutual Benefit Organisations
- Cooperatives
- Friendly Societies
- Burial Societies
- Fraternal Societies
- Community-based organisations
- Risk pooling organisations
- Self-insuring schemes.[19]

42. They can also be categorised as local self-help groups as mentioned in Paragraph 38 and the report "Evolving Microinsurance Business Models and their Regulatory Implications | Cross-country synthesis note 1" of the A2ii. The reports mention examples of local self-help groups, some of which may be regulated while others are not, including:

- Common bond societies such as friendly societies or other mutuals with an existing non-insurance bond. The benefits to members must be guaranteed to qualify as microinsurance.
- Funeral assistance providers / funeral homes, where all the functions of the model are centralised in the funeral home.
- Entities that underwrite the risks of their members internally.
- NGO models - community organisations that are made up of local community members which pool their risks without another common bond. This model may arise from initially informal risk pooling organisations that do not at the outset offer guaranteed benefits, but then grow and formalise.

43. Annexes 1 and 2 contain an overview of MCCOs as defined in various countries and of forms of cooperatives and their purposes. It is clear that MCCOs definitions vary from one country to another. Some forms of MCCOs may not be covered under the regulations and exist informally. The coexistence of different forms could be attributed to the historical and socio economic background of the society. For example, in the UK friendly societies emerged to cope with unpredictable catastrophic events or acute / terminal illness. Through state regulation, these societies were further involved in providing formal life insurance to their members. Burial Societies (in most of Africa) evolved from the need to fund funerals or

[19] This paper addresses self insurance schemes where those self insurance schemes insure a group who also effectively sponsors or owns the scheme and that it operates on a not for profit basis.

hospitalisation costs. These societies had both social and economic functions within the community.

44. Countries generally have developed regulations based on considerations to allow the growth of MCCOs without altering the original form as it existed before legalisation. For example, in South Africa a friendly society has been provisioned to assist local communities in times of disasters with both cash and in kind support, however there has been no minimum or maximum amount specified. A minimum number of people required to form such an organisation has been specified only in the case of cooperatives (at least five). It is important to note that the regulations have not essentially taken it on them to define a form of mutual, instead has allocated the nomenclature based on the main function delivered traditionally 'so far' by the organisation. Hence, a burial society is expected to be close-knit group of people; coming together to organise funerals, provide support to the members of the family of the deceived, both morally and financially, therefore membership size must not increase beyond 500.

45. In the case of India, there is not much difference between the various forms of schemes and insurers engaged in microinsurance (aloof of commercial insurers) covered viz. NGO, cooperatives, mutuals, Microfinance Institutions (MFIs) and Self-help Groups (SHGs). In the case of cooperatives depending upon its major goal / work theme, the minimum eligibility criteria demarcates number of members, entry capital and its area of operations. Likewise in case of NGOs with formal documentation (trust deed, Memorandum of association, bye laws etc.) and formation of governing board (7-20 members) they could be registered as Trust or society or not for profit venture under section 25 of the Companies Act. SHG formation requirements have been kept at a minimum and simple since it is highly community based.

46. The discussions on legal definitions and forms of MCCOs could be concluded with the understanding that based on demonstrated needs, communities have chosen to organise themselves. These organised / semi organised groups have essentially worked for the benefits of members exclusively. With time, immense faith and trust earned from members has allowed these organisations to get attention from the government and attempts were made to regularise and acknowledge them as formal institutions. With such acknowledgements (through government regulations) - these organisations have shown tremendous growth which is discussed in section 2.4.

2.3 Partnerships of MCCOs: Federations, Associations, Groups and Apex organisations

47. MCCOs may choose to organise themselves in groups and in member-driven organisations like federations, networks and associations. This could create various advantages from a business or regulatory perspective.

Federations and Associations

48. MCCOs have larger potential to deliver inclusive insurance by collaborating and developing partnerships amongst each other. Such partnerships could be termed as federations or associations of MCCOs. They could exist at various levels viz. national and regional. A few examples of each classification are included in Annex 4 of this paper for the purpose of building an understanding on the need and importance of such bodies.

49. Such partnerships would enhance group solidarity, enable peer based learning, develop a code of conduct and engage in joint financial education activities. In addition, they represent their members towards the public and engage in a dialogue with the authorities, for example to lobby for tax benefits or to contribute to a National Financial Inclusion Strategy.

Groups and Apex Organisations

50. MCCOs are sometimes organised in group structures.[20] At the top of the group there would be a parent company or apex organisation. The parent company could for example be a cooperative of which the various MCCOs are a member. Their membership allows them to cooperate and benefit from joint arrangements. Participation by MCCOs in a group structure would enhance group solidarity, and provide the much needed scale to the effort of delivering insurance to the un- or underserved. The "parent" cooperative could for example also provide insurance technical expertise or actuarial services or make collective reinsurance arrangements.

51. Apex organisations are entities that are formed to provide services to groups of MCCOs or to facilitate groupings of such organisations or both. They can be owned or operated by the group of organisations that they provide services to or be more independent in legal terms.[21]

52. For the supervisor the existence or possible use of these constructions can be relevant. If, for example, the organisational size of the mutual is too small to allow the hiring of specialists such as actuaries, this expertise can be sourced in from the parent company or apex organisations. It will then be important to involve these entities in the supervisory reviews. In addition, supervisors could rely on the parent company / apex organisation for data collection or compliance with requirements (for example training of agents).

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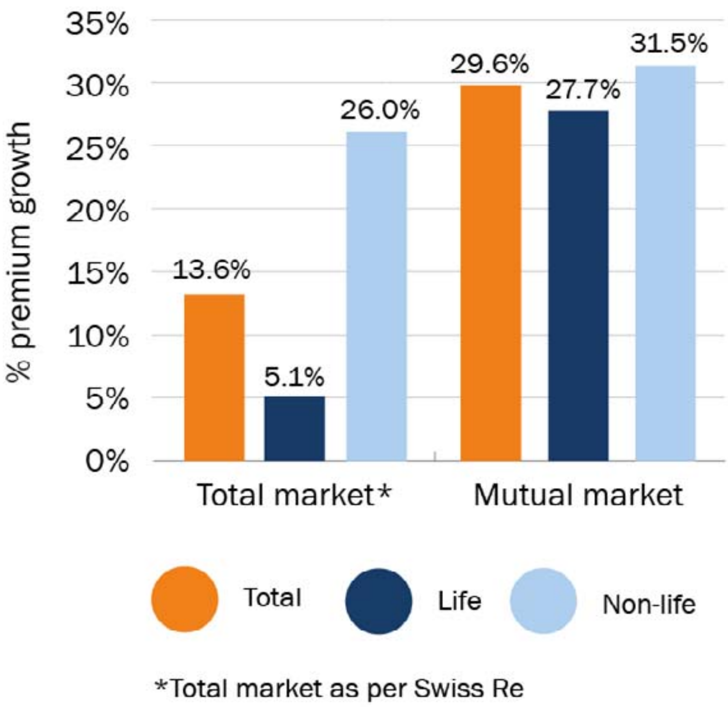
[20] ICP 23 also recognises group supervision matters. Although ICP 23 may not be generally applicable to MCCOs, there is a view that the role of apex organisations can give rise to some group related issues and ICP 23 could be considered as part of the treatment of such arrangements.

[21] See Paragraph 3.38 and footnote 16 of the Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets

2.4 Size of the MCCO sector[22]

53. Globally, the mutual insurance sector wrote a record level of business in 2014, with aggregate premiums of USD 1,286 billion, up 1.3% from the previous year (2013: USD 1,269 billion). The mutual sector posted its seventh consecutive year of positive premium growth in 2014 with year-on-year growth since 2007, demonstrating a flight to quality since the onset of the financial crisis. Annual growth of the mutual sector was greater than the global market average in five of the previous seven years. Since 2007, mutual insurers collectively registered a compound annual growth rate (CAGR) of just under 4% between 2007 and 2014, more than double the CAGR of the total market during the same period (+1.8%).

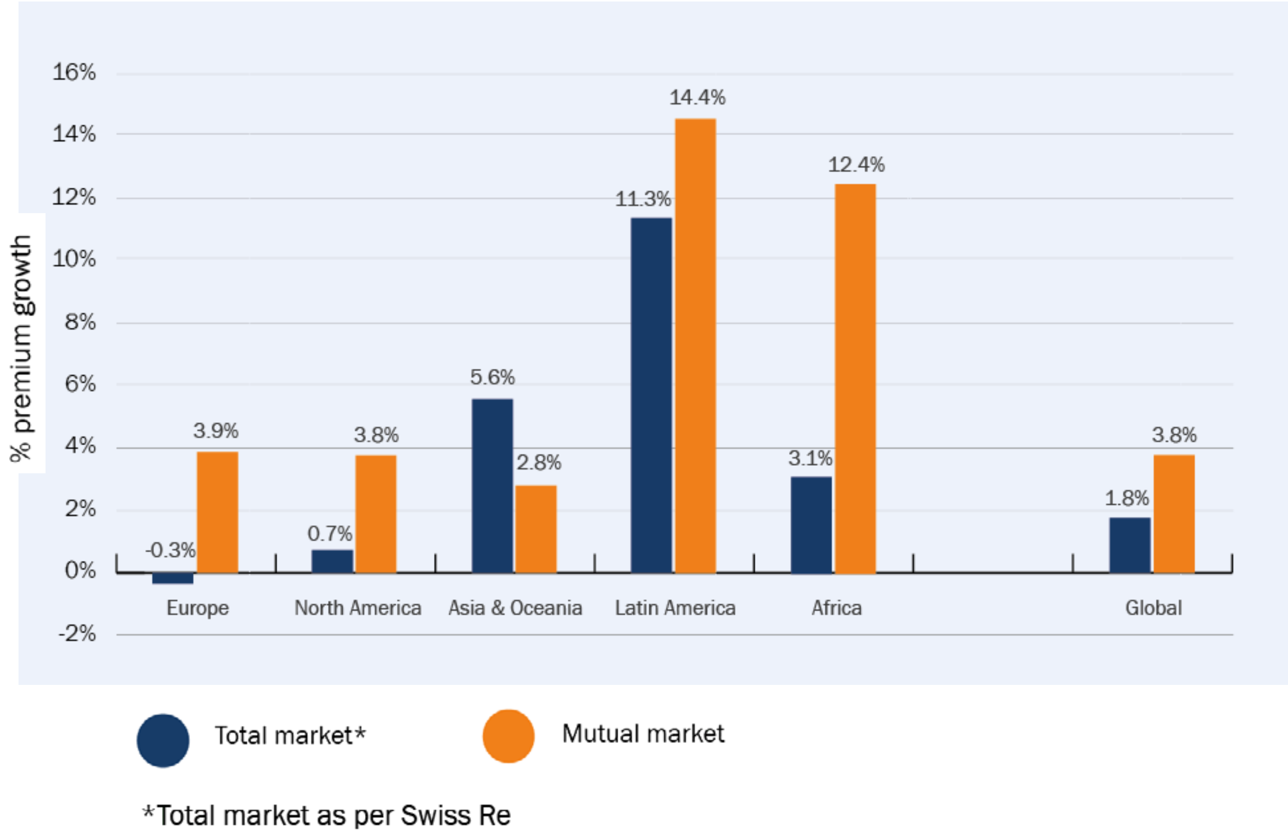
54. As a result of mutual insurers' consistent outperformance of the total insurance market, the global market share of the mutual sector increased from 23.7% in 2007 to 27.0% in 2014—a proportional increase of 14%.



Global premium growth 2007-2014

55. The above figure shows 2014 was the fifth consecutive year of premium expansion for the global insurance market, resulting in aggregate premium volumes that were 13.6% greater than pre-crisis (2007) levels. In comparison, the global mutual insurance sector reported a 29.6% increase in premium income during the same seven-year period access to the communities who were so far not covered.

[22] Sournce: 2016 ICMIF Mutual Market Share report (https://www.icmif.org/news/mutual-and-cooperative-insurers-continue-expand-their-global-reach-latest-icmif-global-mutual). ICMIF's definition of "mutual" includes organisations whose legal status may not be classified as such in their national law, but whose structure and values reflect the mutual/cooperative form, i.e. companies which are owned by, governed by and operated in the interests of their member policyholders. These include limited companies owned by people-based organisations, fraternal benefit societies (fraternals), friendly societies, Takaful providers, reciprocals, nonprofits, exchanges, discretionary mutuals, protection and indemnity (P&I) clubs, community organisations and foundations.



Regional market and mutual compound annual growth rates (2007-2014)

56. Between 2007 and 2014, the CAGR of the mutual sector exceeded that of the rest of the insurance industry in four of the five global regions (see Figure 2). The total market in Europe and North America saw little change in premium volumes between 2007 and 2014: a small contraction in the European market (-0.3%) and a negligible increase in the North American market (+0.7%). In contrast, the mutual insurance sector in Europe and North America increased by 3.9% and 3.8% respectively, thus outperforming the total market by more than three percentage points in both regions.

57. Mutual insurers in emerging markets recorded their strongest premium growth since 2007, with Latin American mutuals reporting the highest growth rates (CAGR of 14.4% compared to 11.3% for the total market). African mutuals grew at a CAGR of 12.4% between 2007 and 2014, almost 10 percentage points greater than regional average of 3.1%.

58. Asia and Oceania was the only region where average mutual growth since 2007 did not exceed that of the total market. Mutual insurers reported a CAGR of 2.8%, which was half of the CAGR for the total market (+5.6%).

59. The MCCOs have essentially a rich historical background and varied form therefore allocating them into single data set could be a challenge in itself. To begin the discussion on MCCOs it would be imperative to look at total insurance penetration rate.

60. Based on the World Cooperative Monitor 2015 and information from the International Cooperative Alliance (www.ica.coop) the following could be added on the potential for the MCCO sector. 2,829 Cooperatives from 76 countries have been registered with a total turnover of USD 2,950.82 billion. These cooperatives are providing necessary services to communities such as banking, insurance, agriculture, wholesale, utilities, health and social care. The largest 300 cooperatives and mutual report a total turnover of 2,360.06 billion US dollars in 2013. Cooperative employment directly concerns 250 million people in the world.

61. Farming and agriculture is where the cooperative business model is most widely utilised. Cooperatives together have an estimated 32% of the global market share in this sector. Cooperatives contribute to food security by helping small agricultural producers to solve the numerous challenges that confront them in their endeavours to produce food. These challenges often include remoteness and lack of access to information about food prices on national and international markets; access to high-quality inputs and variable costs of buying seeds and fertilizer; access to loans to buy these inputs; and lack of transport and other infrastructure in rural areas. Agricultural cooperatives help farmers overcome these obstacles by offering their members a variety of services such as group purchasing and marketing, input shops for collective purchases, as well as building small producers' skills by providing them with knowledge and information, and helping them to innovate and adapt to changing markets. Importantly, cooperatives facilitate farmers' participation in decision-making processes and help small producers' voice their concerns and interests, as well as increase their negotiating power to influence policy-making processes. Agricultural cooperatives operate along the entire value chain, starting from cultivation of agricultural products and livestock farming to the industrial processing of agricultural products and animals. This sector includes both agricultural producer's cooperatives and consortia of cooperatives (or similar arrangements) that carry out the processing and marketing of agricultural goods for their members.

3. The Role of MCCOs in enhancing access to Insurance Markets

62. Section 3 provides considerations as to why the MCCO sector adds value to the efforts in developing insurance markets and enhancing inclusive insurance.

63. Individuals, households, and enterprises are vulnerable to risks and economic shocks. One way to protect themselves is through the pooling and transfer of risk offered by insurance services. The reduction in risk for individuals through risk pooling also makes dealing with risk more affordable. As a result, access to insurance is a key issue to facilitate economic wellbeing particularly for those with limited resources to protect themselves from adversity. It may be, at the same time, that those of limited resources may be more exposed to particular vulnerability. In many markets, there can be challenges limiting access to insurance particularly for the most vulnerable, including low-income populations and small enterprises.

64. For effective access to insurance services, customers and insurance providers need to be able to come together to understand risks and insurance needs; provide product information; enrol in insurance programs; make payments of premiums;, advise, assess and settle claims; and deal with other administrative processes in an economically viable, cost effective way consistent with market needs. Recognising this range of services implies a definition of insurance services that includes both the provision of insurance coverage and also the distribution and management of insurance contracts.

65. When access to insurance services is incomplete, this may result from various causes. The challenges can result from many issues and include:

- Geographic challenges: Where the distance between those providing the services and those wishing to access such services is too great, then this presents an obvious barrier due to the lack of rural outlets or payment facilities;
- Cultural challenges: In many cases, the experience of insurance industry leaders and experts, and their own personal backgrounds can vary greatly from some customer groups making it difficult for them to understand the circumstances, expectations, and attitudes of some parts of the insurance market;
- Business model challenges: To be effective, insurance services are provided through a range of business processes and models. These processes may, however, not be effective or economic when applied to other market segments particularly those segments involving smaller premium amounts per policy. Insurers who attempt to serve the lower premium markets with pre-existing business models often report that this effort is less successful than hoped unless the processes and models undergo material innovation in the approach;
- Service and product design challenges: For the services and benefits of insurance products to be effective for clients, the approach to delivering these services may need to use quite different approaches, skills and experiences for delivery and how services and product benefits operate;
- Challenges due to socio-economic circumstances: In some markets, conventional insurance services are oriented to serve some markets but not well oriented to serve others such as those in the informal workforce, those with highly variable and unreliable incomes, and those with particularly low incomes, or groups of the population who may perceive that conventional insurance is only for wealthy people; and
- Value challenges: Some client communities are sceptical and have an uncertain or negative view. These clients might not be agreeable to contribute to profits of commercial insurers; they might thus prefer MCCOs.

66. As noted above, the scope of activities of MCCOs may vary widely. Some MCCOs can be risk carriers acting as insurers and their commitments towards policyholders are

substantially identical to those of ‘commercial insurers. Other MCCOs may adopt more specific restricted activities. In some markets, commercial insurers have responded well to the challenges of providing direct access to insurance services. In others, one solution to the challenges has been to recognise the roles MCCOs can play. These roles can form the basis for the regulatory approach recognising that characteristics may exist in varying degrees. There are a number of ways MCCOs can provide insurance services to their members including, for example,

- As distributors: MCCOs can act as a channel to clients where they are already acting to bring together client groups and may, in some cases, represent a cost effective and efficient way products can be explained and offered to clients. The key challenge of enrolment of members can be facilitated. In some cases, this distribution is formalised as an agent of an insurer;
- As collectors of premiums: Where the infrastructure and normal functioning of the MCCO can be a way to consolidate payment of premiums that can then be aggregated and transferred to the insurer thus providing cost savings;[23]
- As part of the claims assessment process: Just as microfinance institutions (MFIs) have found it useful to make use of the community organisation as a considerable aid in managing loan payments and reduce the risk of delinquency, insurers can find that moving as much of the claims assessment processes as close as possible to the customer can have advantages in reducing costs and ensuring timely claim payment is able to be delivered;
- As the policyholders of a group insurance product covering the members of the association: MCCOs can provide a critical element of the insurance delivery process to reduce cost by providing a natural aggregation of clients into groups. Group based insurances tend to be a lower cost option compared to individually issued insurance delivery. Similar to other group insurance arrangements, the record keeping associated with knowing the list of insured risks and other matters may be an administrative benefit provided by the MCCO.
- As part of the process of understanding and relating to the customers: MCCOs can sometimes have a more intimate relationship with members and amongst members who often come from the same community. Besides managing the risk of fraudulent claims, this provides them with the opportunity to better understand the needs of members. Knowledge of the characteristics of the group also makes pricing easier and removes many of the information asymmetries facing other insurers. MCCOs can act as a voice of their membership when insurers are looking to design effective products and services;
- As part of the process of educating customers on the operation of the insurance services, and financial literacy generally;[24]
- As providers of ancillary or complementary services: These could include education on health, provision of other services to compliment the insurance service, or other parts of an overall package for the client. Common examples, but not the only ones, would be the provision of other financial services provided by cooperative microcredit institutions or the provision of health delivery;
- As a vehicle to reinforce trust in the products: One of the main reasons for the success of MCCOs in low-income markets is their ability to reinforce trust in the insurance product. This is dependent on the effectiveness of the characteristics noted in Paragraph 23. It is

[23] The MCCO may enhance its infrastructure in this area through its relationships with other institutions.

[24] Just as microcredit institutions have taught many individuals with little exposure to financial planning how to make regular payments to cancel a loan, so both MCCO’s and other insurers in the market can educate policyholders how to make regular payments to ensure continued insurance coverage or contribute to a savings fund.

sometimes the case that commercial insurers are considered by the informal and lowest income segments as not being "for them." This is also a reason why member-owned structures often evolve spontaneously in lower-income communities;

- As a means of reducing costs and making insurance more affordable: In particular, for those with limited resources and for small premium and claim amounts, every effort made to find cost effective ways to deliver the services will be critical. Even when services are available, they may be too expensive for some segments. An MCCO acting as an aggregator of clients can support the product delivery whether or not the product is formally a group insurance contract or individual contracts leading to cost savings making the products affordable; and
- Although in some business models, the MCCO relies on a conventional insurer to be the risk carrier, in others the MCCO may carry some or all of the insurance related risk directly and have demonstrated their ability to do so effectively. There is some evidence that mutuality and surplus retention can help customers with low insurance literacy to accept insurance even when they purchase insurance and no claim arises. In an MCCO structure, the value may be more readily perceived by clients when there is no claim on an insurance product providing risk cover only.

67. Although far from an exclusive list, the table in annex 3 provides actual examples of cases where MCCOs have been playing these roles and enhancing access to insurance services.

68. Historically, when risks are too large for individuals and households to manage in their own right, they have looked to pool these risks. This pooling may start through relatively intuitive, informal risk pooling and later develops into more formalised products (for example where each member contributes a regular sum each month from which pay-outs are made to those suffering risk events) and, eventually, insurance products provided by formal insurers. Thus, informal, community-based risk pooling conceptually provides a trigger for the development of formal insurance. However, the development of insurance markets served by formal insurers has not always removed community- based risk pooling which can still play an important role particularly for parts of the community where access to the conventional insurance market is difficult.

69. When the MCCO is the insurer, this function of risk pooling is readily apparent. When an MCCO is not the risk carrier but acts as a distributor, or as part of the claim management or other process, the pooling aspects are available to insurance cover provided by authorised insurers. However, when MCCOs are prohibited from serving in either role, these advantages are not accessible to the market and can result in reduced access to insurance.

Advantages of the MCCO model

70. A scientific inquiry into the success of mutuals has been undertaken by various institutions (viz. ILO, ICMIF, World Bank, MIN etc.). The research and studies have identified critical advantages of mutual insurance over the commercial insurance. Some of these advantages are discussed below with evidences from various countries.

71. **Responsive to client needs** - There is often a closer relationship between MCCOs and their members, who often come from the same community. This enables member based insurers to tailor products to members' needs and manage claims fraud. Knowing the group also facilitates pricing and removes many of the information asymmetries facing corporate insurers. Since by design, mutuals are accountable to their members and not to shareholders, they are more likely to adopt and respond to client needs.

CARD MBA in Philippines has the 1-3-5 claim settlement model in which claims are settled within 1 or 3 or 5 days depending on the condition and situation of the claim. Claims are to be settled in 1 day if the deceased is not buried and is seen by a representative to verify the death; 3 days if a representative cannot visually see the body; and on the fifth day, if the claim has not yet been settled, verbal notification and a letter is given to the beneficiary indicating why the claim cannot be settled at that time. CARD MBA also demonstrated its effectiveness in being able to respond to client needs during catastrophic events viz., typhoon Bopha in 2012. Most of its members lost their homes, valuables and family members in the typhoon. The Majority also lost any documentation enabling them to make claims, however CARD MBA consulted with the insurance commission and received permission to provide claims with minimal paper work. Their dedicated professionals were always accessible through field offices located across the country. For all the death related claims, it provided partial amount on the promise of return in case the insured was found alive later.

Likewise CIC (Kenya) has shown similar initiative in the year 2008, during the loss of life due to violence, by taking a strong stand to ensure claim settlement for its policy holders. This not only boosted policyholder's trust but also showed the importance of insurance to the poor.

At Uplift Mutuals the health mutual insurance product does not have age premiums as it is validated by participating communities, who strongly believe in solidarity and that the young and the old should be in the fund together.

72. **Maximise client value** - The mutual organisations have been proactive in creating engagement platforms and listening to customers. Client Value has to be assessed in the given context by viewing it from the perspective of client itself. It is to be determined from the real benefits accruing to the clients. Constant efforts have been made by mutuals to improve their offerings and retain the clients therefore.

Uplift Mutuals, an Indian based health mutual insurer, maximises client value by being responsive to client needs. To run the health mutual insurance programme sustainably and provide meaningful support to clients, Uplift realised that investments in healthcare access and preventive health are crucial. It has invested in setting up a multi-tier healthcare access system that includes dedicated outpatient services, referral and guidance to appropriate health services, a network of preferred healthcare providers, a 24x7 helpline managed by doctors, an annual plan of organising health preventive check-up camps and health talks on issues being faced by the communities. As a result, on the one hand, Uplift has been able to reduce its claims frequency, and on the other hand provide the tangible health services its members need at rationalised rates.

A low-income household in Kenya ranks risks to health and life as their biggest concerns. CIC operating in Kenya has especially catered to this demand and come up with microinsurance schemes which have very low premiums in both the rural and semi-rural regions of Kenya. They often organise insurance camps in these regions and educate the people about this. These additional efforts did not exist with commercial insurers and CIC has to be credited for this.

The National Federation of Retail Newsagents (NFRN) in the UK, offers cover to newsagents and other retailers exclusively. They were created by the federation to provide its members with good quality, value for money cover, exceptional service and a sympathetic claims settlement ethos. Its "weekly payment scheme" has enabled it to offer lower prices and better services thereby making it more attractive over commercial insurers.

73. These initiatives might prove to be expensive and are therefore not taken up by commercial insurers. However, mutuals have been successful in keeping the cost low, by

identifying and employing local community members in front-end sales and working through the community leaders and groups.

74. **Insurance plus approach** – This emphasises additional benefits accruing beyond the product and services offered by mutuals. Enhanced community development, increased group solidarity and emphasis on healthy living are some of the easily visible by-products of this approach. A democratic governance model and participation in claim meetings results in increased group social ties.

75. Low insurance literacy makes it difficult for consumers to identify the right cover and be able to utilise it. Recognising this, most mutuals have embedded consumer education and awareness building in their offerings. Through these programs, consumers are made aware of their rights and duties as policyholders. All these are achieved through standardised templates of workshops, audio-visual aids and more.

El Salvador's Seguros Futuro is helping educate members of its cooperatives all around the country and in local communities, many of whom used to believe that insurance is only for the rich. Because of this education programme, their members now have a better understanding of how to manage their monthly budget, their insurance protection and their savings. Their financial education project (EFI) emerged as a value-added scheme for a microinsurance product that is affordable and responds to people's financial needs. The EFI is a development throughout the social cooperative balance and it creates a strong social investment.

La Equidad in Colombia provides insurance to the rural areas of the country and runs workshops on the theme of financial education.

The referrals system within the hospital network for Outpatient Department consultation along with 24x7 helpline access to members has helped Uplift Mutuals gain people's trust who were otherwise sceptical of such initiatives. Awareness building through health education talks and organising preventive health check-up camp has reinforced positive behaviour change (Uplift Mutuals -India)

Portage Mutual Insurance in Canada has a diverse range of insurance products including life, health and residence. In addition, they also provide the services of asset inventory management for households, disaster planning, and more. They follow the approach of insuring people against various threats and at the same time helping and guiding them to prevent instances that may lead to mishappenings.

Shepherd India runs cattle care camps with free immunisation and de-worming. The camps serve a marketing and recruitment purpose too.

76. **Inclusive and democratic** - Members participate directly in decision-making and poor households understand and appreciate the concept of social solidarity. Democratic governance and participation decision making are the salient features of any MCCO. It is further reflected in communities taking ownership and taking charge of the mutuals.

77. Most mutuals have created a governance structure which involves a board elected from among its members (from the local community). The board is entrusted with the roles and responsibility of overseeing the daily operations and can be changed if non-functional. Decisions about claims are undertaken by the board itself with no outside interventions and all members abide by the same. It has been made inclusive too by mainstreaming the participation of women and other disadvantaged groups as identified by a particular society.

VimoSEWA is a multi-state cooperative society promoted by SEWA (umbrella organisation) Its objective of women empowerment has created a governance structure wherein representation has been made based on different regions covered by them (only women members) (Bihar, Gujarat, MP, Rajasthan and Delhi). While most members are elected democratically, some are also ex-officio representatives from sister organisations of VimoSEWA.

For Uplift Mutuals, one of the main reasons that a community managed insurance scheme has been able to exist and grow for over a decade is its governance design. Uplift has invested in a detailed information education and communication setup that builds client involvement and understanding of the product and how it operates at different levels. Elected representatives from amongst the clients are trained over a period of 12 months in managing the scheme including deciding on claims pay-out, risk management and health services design. Helped by a cloud-based management information system, the communities are able to take timely and critical decisions on product and claims pay-out.

78. In the case of a country like India where disadvantaged / underprivileged groups represent various stakeholders it is of prime importance to understand that there are various measures which have been adopted to make these institutions inclusive and democratic. Leadership on such boards by these disadvantaged groups, sends the message that given a chance; these communities can overcome challenges and perform leadership roles too with extra level of oversight and control.

79. **Community – based** - Mutuals essentially operate within the local community boundary as defined by the form and size. Community base of mutuals gets reflected in the type of insurance and product design. The provision of local community participation in the claim settlement not only represents the inclusiveness of mutuals but also showcases the strong hold of members.

80. **Long term perspective** – Elaborate historical evidence suggests that the development mutuals has taken place over a period of time. Mutuals, in general, are able to take a long term perspective vis-à-vis a commercial insurer which in principle is expected to increase shareholder wealth and pay (annual) dividends. A systematic enquiry was made into 280 insurance companies in the US, still trading after a hundred years of their existence, to understand the attributes contributing to their longevity. It came out strongly that 62% of the companies were structured as mutuals. This study highlighted that under mutual form, the management acted as the stewards of the business, with the objective of passing on a healthy firm safely to the next generation of managers and policyholders. It is also important to note that the mutuals do not have any outside “demanding” shareholders to consider and hence are independent from them.

The Sociedad de Seguros de Vida del Magisterio Nacional (SSVMN) was set up in 1920 in Costa Rica based on mutual principles. The long-term existence of SSVMN to date provides a strong case of self-governed, group based institutions. SSVMN has adopted newer approaches (integration of technology in managing scale) in order to meet the demonstrated needs, and at the same time has kept the basic framework of mutuality untouched. In 2009, with initial products specific to teachers, they took a leap forward by establishing itself as the first privately owned company under the new insurance regulations. It was certified under the International Organisation for Standardization, series 9000, which is designed to measure quality of management in the area of meeting customer’ and member needs, called Seguros del Magisterio S.A.

Likewise, in many countries, cooperatives and credit unions have diversified into insurance services too. Columna in Guatemala, Malawi Union of Savings and Credit Cooperatives (MUSCCO) in Malawi, Mutuelle Sociale Pamecas in Sénégal etc have all emerged from the context of credit unions, thereby not only signifying a long term perspective but also showcasing the potential for growth of mutuals.

81. **Conclusion** – Globally, a large population remains unserved or underserved by insurance. Many products, models and approaches have been launched, tested and scaled up. The “mutual model,” featuring MCCOs, can potentially have an added value to bringing insurance to poor households and enhancing access to insurance more generally. This statement does not intend to undermine the contribution of commercial insurers by projecting MCCOs as good models of insurance delivery. It in fact, it suggests that while dealing with the poor, an alternative strategy might be followed using MCCOs.

4. The Proportionate Application of the Insurance Core Principles

82. Section 4 of this Application Paper applies in principle to all MCCOs that are active insurers. It does not apply to MCCOs in the role of intermediary unless the ICP in question has explicitly indicated that it does.[25]

4.1 Proportionality in general

83. The ICPs provide a globally accepted framework for the supervision of the insurance sector. The ICP statements prescribe the essential elements that must be present in the supervisory regime in order to promote a financially sound insurance sector and to provide an adequate level of policyholder protection. Standards set out key high level requirements that are fundamental to the implementation of the ICP statement and should be met for a supervisory authority to demonstrate observance with the particular ICP.[26] The ICPs apply to insurance supervision in all jurisdictions regardless of the level of development or sophistication of the insurance markets and the type of insurance products or services being supervised.[27] Therefore, in principle the ICPs apply to the regulation and supervision of MCCOs.

84. This section of the paper provides considerations and guidance for an implementation of various ICPs where the specific characteristics of the MCCO sector gives rise to a specific approach from a perspective of proportionality. The ICPs describe the proportionality principle by indicating that: "*supervisory measures should be appropriate to attain the supervisory objectives of a jurisdiction and should not go beyond what is necessary to achieve those objectives.*"[28] The terms "*nature, scale and complexity*" subsequently provide the perspectives for considering proportionality. The proportionality principle in the ICPs gives room to consider specific characteristics of the MCCO sector. However, it should be kept in mind that the considerations leading to a proportionate application of a principle or standard should give due consideration to the desired outcome of that Principle or Standard.

85. In respect of MCCOs, types of member ownership roles, democracy, solidarity, definition of common purpose, and profit / surplus retention, may give reason to tailor regulatory arrangements and supervisory obligations. Some of the business practices, processes and other characteristics in respect of MCCOs may call for specific treatment to achieve the desired outcome of a Principle or Standard. It should be noted that a supervisory response may include both a relief from an obligation on other insurers and an imposition to formalise processes from accepted practice to absolute requirements. In the end, a supervisor should ensure that all insurance regulatory requirements necessary to provide appropriate consumer protections are applied to MCCOs acting as insurers.

86. At the same time, the effectiveness of the mutual processes can reduce as organisations grow in size or have more diverse membership. Many MCCOs go to considerable additional lengths to reinforce the effectiveness of mutual processes. However, it has to be recognised that it becomes increasingly difficult to find material differences once organisations become very large and diverse. As a result, very large MCCOs should in principle be subject to the same requirements as shareholder companies.

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[25] Paragraph 9 of the ICPs
[26] Paragraph 6 of the ICPs
[27] Paragraph 8 of the ICPs
[28] Paragraph 8 of the ICPs

4.2 Formalisation and Licensing

Licensing

87. Relevant Principles and Standards[29] - A legal entity engaging in insurance activities must be licensed before it can operate in a jurisdiction. The insurance legislation should contain, inter alia:

- a definition of regulated insurance activities subject to licensing;
- a prohibition of unauthorised insurance activities;
- a definition of permissible legal forms of domestic insurers; and
- an allocation of the responsibility for issuing licenses.

88. Scope of the Licensing Requirement – The nature of the insurance activities will in principle determine whether a license is needed. When a MCCO is carrying insurance risk it should in principle be considered an insurer and therefore subject to licensing. The MCCO acting as insurance intermediary should also be subject to a form of licensing.[30] It is to be expected that a legal entitlement by a customer to a (guaranteed) benefit based on an insurance agreement should be a qualifying element of an insurance policy, requiring protection by insurance regulation and by supervisory oversight. Therefore, arrangements under which a claim is discussed by the legal entity without any legal entitlement to compensation would not be considered an insurance contract although there is a membership relationship between MCCO and members.[31]

89. The ICP guidance indicates that some "*jurisdictions may decide to exclude some activities from the definition of insurance activities subject to licensing. Any such activities should be explicitly stated in the legislation. Jurisdictions may do this for various reasons, such as:*

- *the insured sums do not exceed certain amounts;*
- *losses are compensated by payments in kind;*
- *activities are pursued following the idea of solidarity between policyholders (eg small mutuals, cooperatives and other community-based organisations, especially in the case of microinsurance); or*
- *the entities' activities are limited to a certain geographical area, limited to a certain number or class of policyholders and/or offer special types of cover such as products not offered by licensed domestic insurance legal entities.*"

The Guidance adds that "*given the principle that all entities engaged in insurance activities must be licensed, the exclusion of limited insurance activities from licensing requirements should give due regard to having appropriate alternative safeguards in place to protect policyholders.*"[32] This guidance should be interpreted restrictively and not be seen as an exemption in general for the licensing and supervision of MCCOs. If small MCCOs are excluded from insurance regulation and supervision – and hence considered informal - there should be effective alternative safeguards which may be found in proven, vested social structures and practices on which the MCCO is founded. Even if such alternative safeguards can be considered to be in place, there is merit in establishing and keeping an overview of the informal MCCOs active and to encourage that these MCCOs choose the path of formalisation.

[29] ICP 4; Standard 4.1
[30] Standard 18.2
[31] See Paragraph 33. The situation described under the second bullet would qualify as insurance.
[32] Guidance 4.1.1 and 4.1.2

Exemptions for mutuals; the case of France and Poland:

In France, property and casualty and life mutuals regulated by the Insurance Code, and health and providence mutuals regulated by the Code de la Mutualité (Mutuality Code),[33] are authorised to conduct business for the same lines of business as stock insurers. Health and Providence mutuals of the Code de la Mutualité can only be authorised for a limited number of lines of business, which are related to the person (accident, sickness, unemployment…). These mutuals cannot operate in motor insurance, household insurance and others. (art.R.211-2 of code de la mutualité).

Mutuals under the 'Code de l'Assurance' (Insurance Code)[34] (art. L.322-26-3 and R.322-125) can be exempted from licensing, provided they are fully reinsured with a "union of mutuals". By law, the sole activity of such union must consist in fully reinsuring the insurance operations of the mutuals that are member of the union. Exemption is thus based, not on the size of the mutual, but on whether or not the mutual is or not fully reinsured with such specific entity as a "union de mutuelles." A similar exemption exists for mutuals under the Code de la Mutualité.[35] See also Art.7 of the Solvency 2 Directive applicable to non-life mutuals

In Poland a mutual undertaking with a small number of members and few or low number of insurance contracts or an inconsiderable territorial range of activity can be recognised by the supervision authority as a small mutual insurance undertaking (SMIU). SMIUs operate on simplified rules. There are some liberalised regulations relating to SMIU's capital requirements (eg low share capital and optional guarantee fund).

90. Permissible Legal forms – The insurance supervision legislation will need to include the legal forms admissible. This is normally done on the basis of a choice of the suitable legal form for covering insurance risk which, with respect to the MCCO sector, is often vested in corporate legislation. The insurance supervision legislation will normally designate one or more of the institutional forms mentioned in Paragraph 41 such as mutual and friendly societies. However, the national (insurance or corporate) laws may have restrictions on the legal forms suitable to carry insurance risk even as a membership organisation. For example, in the Netherlands, cooperatives are not eligible to underwrite insurance. For that purpose, corporate legislation has designated the mutual society.

Legal forms: the case of Tunisia

There are two forms of regulated mutual entities in Tunisia:

- Mutual insurance companies ("sociétés d'assurance à forme mutuelle") which operate similar to insurance (share) companies; and
- Mutual societies or associations ("associations ou sociétés mutualistes") which are groups or associations that offer support to their members (and to their relatives) and cover of risks related to their lives (including health cover, retirement compensation, disability and death).

91. Licensing Modalities – When deciding on the appropriate way of licensing a jurisdiction should chose for a proportionate approach and may take into account the nature, scale and complexity of the insurance activities of MCCOs. For small MCCOs, jurisdictions may opt for a simplified administrative authorisation through a registration process for which basic documentation such as Articles of Association, By-Laws, a list of names of directors, a simple

[33] http://codes.droit.org/cod/mutualite.pdf
[34] http://codes.droit.org/cod/assurances.pdf
[35] See also Art.7 of the Solvency 2 Directive applicable to non-life mutuals

balance sheet and Profit & Loss (P&L) account or opening balance sheet, and policy conditions are submitted. After registration, the supervisor may limit its activities to a light touch oversight based on basic financial returns. This modality of licensing may be arranged for MCCOs with limited activities in terms of number of policyholders, premiums volume, type of insurance risk (for example limited to agricultural insurance) or geographical scope (or a combination of these factors). Limitations or special conditions may be set in respect of the activities of such smaller MCCOs to control prudential and conduct of business risks. These limitations and conditions may bring these risks to a level that would allow limited oversight instead of full supervision. For example, certain lines of business such as life insurance and/or liability insurance may be prohibited. Also, conditions may be used to arrange that the Articles of Association or By-Laws enable the board to ask members for additional contributions or use members' account for solvency purposes. These limitations and conditions may be imposed either by legislation or as conditions connected to a decree granting exemption from full licensing and supervision.

92. For bigger mutuals and cooperatives that in terms of the size of the business and risk profile are comparable with commercial insurers the regular licensing (administrative authorisation) would seem appropriate in combination with the full scope of supervision applied to commercial insurers. For any modality of licensing, the legislation should clearly state the applicability, requirements and process for registration.[36]

Type of license / registration and any exemptions from supervision

Morocco: There is no license but charters of mutuals must be approved by joint order of the Minister of Economy and Finance and the Minister of Employment and Social Affairs.

South Africa: A friendly society registered with long-term policies with (i) the value of the policy benefits, other than an annuity, to be provided or (ii) the amount of the premium in return for which an annuity is to be provided, does not exceed R7,500 (approx. USD 500) per member is not required to be a registered insurer.

93. Licensing Authority – The licensing authority could be the supervisor for the commercial insurers. Sometimes, for MCCOs, a special government department or public authority other than the regular insurance supervisor is assigned with the registration of MCCOs. In some countries registration may even be limited to incorporation and registration with the Chamber of Commerce. When assigning the licensing and supervisory authority due regard should be given to whether or not this authority has the proper capacity and expertise for oversight of an insurance entity and an understanding of the dynamics of insurance markets. It should also be able to carry out all responsibilities regarding supervisory review and analysis (both on-site inspections and off-site monitoring) of the MCCO. It should have adequate powers for effective supervisory interventions when and where needed. If the supervisor for MCCOs is a separate authority from the supervisor for conventional insurers, proper information exchange and cooperation mechanisms may be needed. These could be vested in legislation or arranged through a memorandum of understanding.

Formalisation

94. The Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets states that "*given the overall objective that informal insurance is undesirable, the existence of an informal sector may need to be formalised to give effect to this objective*" and that "*everyone should be offered the opportunity to be part of the formal financial system.*"[37]

[36] Standard 4.1.3
[37] Paragraph 2.22 resp. Paragraph 2.5

95. In general, providers of insurance services should be included under the supervisory regime rather than excluded. Efforts to reform the regime to include MCCOs within this regime would be important so all policyholders should be accorded the benefits of prudential and conduct of business supervision.

96. Paragraph 2.2 onwards of the Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets provides application guidance on the process of formalising the informal sector and managing transitional arrangements. In this respect it is relevant to note that:

- Transitional arrangements may be necessary to allow informal insurance to migrate to a regulated environment. They may also be relevant when regulatory arrangements anticipate that insurers will form and build capacity over time, or when pilots are conducted;[38]
- When seeking to formalise an informal sector, a clear and transparent pathway should be provided. As a first step, all informal entities providing insurance services should, at least, be registered through a process that is clear and transparent (see Guidance 4.1.6) and meet minimum requirements;[39]
- Once registered, entities should operate a restricted business model reflecting the extent to which their business is lower risk, smaller, and less complex. Conditional licenses could be used (as envisaged under Standard 4.7);[40]Accepting (imposing) restricted business models with commensurate recognition of the impact on the nature, scale and complexity of the risk should be implemented to encourage the path to a more formal status;[41]
- Supervisors need to avoid approaches that are inconsistent and could lead to regulatory arbitrage. This challenge can arise with transitional arrangements, or specially tailored regulation. In such instances, attention is needed to ensure that perverse incentives are not created and differentiation is limited only by the nature scale and complexity of the risk.[42]

97. When a process of formalisation is started, the supervisor is often confronted with a significant segment of the market that is not yet registered and is therefore difficult to reach. This is especially pertinent in the MCCO sector which could consist of numerous small-size providers that are geographically spread and unaware of pending regulatory changes. Also, the financial and other conditions of individual informal insurance providers are likely to be unknown to the supervisor. This will create a challenge in understanding the impact of imposing (new) regulations to this market segment and will have consequences in terms of supervisory capacity to manage transitional processes.

98. Therefore, when managing a process of formalisation, the supervisor could consider the following steps:

1. identification of the insurance providers involved;
2. understanding the financial, organisational and other conditions of the providers involved as a basis for the design of an proportionate regulatory regime and an appropriate transitional approach;
3. effective outreach and communication with the insurance providers involved.

99. Identification of informal MCCOs – Without knowledge of the identity of the insurance providers that will be regulated it is impossible to communicate directly with them, to explain

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[38] Paragraph 2.22
[39] Paragraph 2.23
[40] Paragraph 2.24
[41] Paragraph 2.25
[42] Paragraph 2.30

the required measures and to manage the formalisation process. The supervisor may need to be creative in establishing a list or (tentative) register of (potential) providers that need to be formalised and supervised in the future. As it might not be clear immediately whether an entity will be considered an insurer according to the insurance regulation the list may have a preliminary nature and used to ascertain at a later stage which entities are indeed to be considered an insurer.

100. Such a list or register could be established on the basis of data from:

- The Chamber of Commerce. If MCCOs are recognised as legal entity they are likely to be registered with the Chamber of Commerce as could be expected with cooperatives and mutuals;
- Other public records or records from public authorities like revenue and tax authorities;
- Membership registers from trade associations. This could be the insurance association or associations for cooperatives or mutuals;
- Other private sources such as client details of telephone or internet providers;
- Private research institutions specialised in searches for marketing and other purposes;and
- Tipping-off – information provided by customers for example provided on special information lines.

To get access to these sources the supervisor may need to verify whether the provision of the data is legally permissible. If not, a special legal arrangement – possibly as part of the transition arrangements – could be considered. The collection by and transfer of information from these institutions may require payment of a fee or reimbursement of expenses. The supervisor will need to discuss the logistics with the institutions.

101. Understanding the financial, organisational and other conditions – Once the identity and contact details of the potential insurance providers have been established the supervisor may need to contact the individual entities. The supervisor would first of all need to explain the rationale for the initiative to contact the entity and also explain the basics of the (future) regulations. This would help to persuade the entities to cooperate in the transition process, more so as they might at that stage not be required to cooperate and provide information as long as their formal status as insurance provider has not been legally established. For that purpose it is advisable to obtain the cooperation of any trade association that can assist or mediate in establishing a good rapport with its members and possibly help in collecting the data required.

102. Once a contact has been established the supervisor can ask for information, such as the following, that will allow him to understand the “business” of the entity:

- The characteristics of the products and services offered to the members and the operational and other processes used;
- The financial position of the entity including assets, liabilities and investment policy;
- The nature of the organisational set-up, governance and relationships with members.

The supervisor can also request the information from auditing and actuarial firms.

103. To collect this information the supervisor may want to ask for basic financial and other data such as an annual report, balance sheet, P&L account and auditors report. It could also send out a questionnaire with specific questions to either the entity or – if possible and available – the entity’s accountant or actuary. Another option is to complement the information by doing quick scans through on-site visits.

104. This information will serve multiple purposes which are interrelated. Firstly, insight knowledge based on this information will provide an impression on how the (envisaged)

regulation will impact the entity. It will, for example, provide an indication if and how many entities will be able to meet the future financial requirements. As new regulations might raise business expenses for the entities and challenge their sustainability regulations prompting a trend towards exit from the market or concentration into bigger entities through mergers and portfolio transfers. If a supervisor has a proper understanding of these aspects it can (more optimally):

- Make arrangements so that the future regulations give due regard to these conditions which could mean setting the boundaries for tiered licensing and light-touch oversight;
- Consider transitional measures which could mean establishing grandfather clauses[43] in regulation or grace periods[44] for compliance to allow accommodation with the new requirements;
- Prepare the organisation and staff of the supervisor for the process of formalisation which could mean arranging specific training for staff and make arrangements to assist in expeditious licensing processes, merger of entities or winding-up of entities.

Any deliberation on such policies and measures should be based on the optimal protection of policyholders.

105. Effective outreach and communication – As already explained in the previous paragraphs, it is important to timely inform the (potential) insurance providers of the pending changes to the regulations. This would allow them to prepare for these and provide the supervisor with the information on the financial, organisational and other states of affairs to consider specific policies and measures. Although a good rapport is helpful for this purpose, the supervisor may encounter resistance and opposition from the entities. They may have fundamental objections to becoming regulated and supervised, in particular if it jeopardises their existence. Some may be unaware that they are actually offering services to their members that can be regarded as insurance; for example, if they do not use the conventional insurance terms (contract instead of policy or contribution instead of premium). It is important that the supervisor tries to convince the insurance providers to cooperate. Often trade associations can be helpful to achieve this.

Growing an inclusive market and responding to informality: the case of the Philippines[45]

In the Philippines, mutual benefit associations (MBAs) are recognised in the insurance law since 1974. Since 2006, a special regulatory dispensation created the Microinsurance MBAs, requiring a minimum of 5,000 members, reduced operations (only life), and a lower guarantee fund that can be built over time.

The 2010 microinsurance regulatory framework saw further measures to address informality in the microinsurance space. An important component has been interagency cooperation between the Insurance Commission, the Cooperative Development Authority and the Central Bank. Thus, where cooperatives are concerned, it was recognised that the authority with functional oversight over insurance provision, the Insurance Commission, needs to work together closely with the authority overseeing cooperatives from an institutional point of view.

The current regulatory framework allows MCCOs four options for formalisation:

1. by obtaining a group policy from a commercial or cooperative insurers;

[43] A clause exempting certain existing insurance providers from certain legal requirements.

[44] A period granted to allow compliance with regulations

[45] 9th IAIS-A2ii Consultation Call on "Mutuals, Cooperatives and other Community Based Organisations (MCCOs) in inclusive insurance", 26 March 2015

2. (by becoming an agent for a commercial or cooperative insurers;
3. by establishing a new Micro insurance - MBA or by joining an existing microinsurance-MBA; or
4. by applying for a commercial or cooperative license, in which case a reduced capital adequacy ratio applies if at least 50% of the business is in microinsurance. The representatives of the Insurance Commission Philippines emphasised that the process in the Philippines has taken several years, and is still ongoing.

There are two cooperative insurers with a significant number of low-income clients and links to primary cooperatives. Also, the MI-MBAs have been a prominent driving force for microinsurance, showing commercial insurers the potential of microinsurance. In particular, CARD MBA, the first to be licensed in 2001, fulfilled an important role as "franchise model" for nascent MI-MBAs. The technical assistance arm formed under its auspices, RIMANSI, continues to play a strong apex and backstopping role. Today, 21 microinsurance MBAs cater for approximately three million policyholders and their family members, holding more than 60% of the life market in terms of the number of microinsured. MI-MBAs saw 32% growth between 2012 and 2013.

Challenges remain including how to sustain the current high levels of growth, how to expand the role of MCCOs (which is currently confined to life business) into the non-life market with the remaining informality of cooperatives still running self-insurance schemes. The government started to reengage on the formalisation topic in 2015. Focusing on in-house insurance schemes of cooperatives.

Steps towards formalisation

Jamaica: Since 1971, all insurance companies had to be registered. The FSC monitors the market and where it is found that an unregistered entity is operating in the market, the company is given the opportunity to register. If the entity refuses to register, the entity is referred to the Director of Public Prosecution since it is a criminal offence to operate insurance without registration. The Insurance Act and the attendant regulations are set out the registration requirements.

New Zealand: the Bank identified a number of insurers with significant shortcomings in some licensing requirements, such as inadequate capital, shortcomings in their fit-and-proper policies for directors and "relevant officers", and inadequate governance. The Bank's approach in regard to these insurers was to require evidence of a realistic plan to address shortcomings within specified timeframes, or to show how they would cease carrying on insurance business in New Zealand and exit the sector. Whilst the Bank was not able to enforce the Act's powers on un-licensed insurers, the licensing requirements provided a threshold that crystallised the "continue or exit decision" by requiring insurers to get up to speed and comply, or to make the decision to exit.

4.3 Corporate Governance

106. Relevant Principles and Standards - Corporate governance refers to the set of relationships between an insurer's board, senior management, customers and other stakeholders; and a structure through which the objectives of the insurer are set, and the means of attaining those objectives and monitoring performance are determined. The supervisor requires insurers to establish and implement a corporate governance framework which provides for sound and prudent management and oversight of the insurer's business as well as adequately recognising and protecting the interests of policyholders.[46] Accordingly, the corporate governance framework of an insurer:

- promotes the development, implementation and effective oversight of policies that clearly define and support the objectives of the insurer;
- defines the roles and responsibilities of persons accountable for the management and oversight of an insurer by clarifying who possesses legal duties and powers to act on behalf of the insurer and under which circumstances;
- sets requirements relating to how decisions and actions are taken including documentation of significant or material decisions, along with their rationale;
- provides for communicating, as appropriate, matters relating to the management, conduct and oversight of the insurer to stakeholders; and
- provides for corrective actions to be taken for non-compliance or weak oversight, controls or management. [47]

107. The subject of corporate governance is closely related to the issue of agency, which refers to the concerns of alignment of the interests of the managers of an organisation with those of the principals / owners of that organisation that result from a split between ownership and management. Governance of MCCOs is different from that of conventional insurers formed as share companies.[48] In MCCOs the insurer is collectively owned (and/or controlled) by policyholders, thereby reducing the divergence of interests.

108. The approach to corporate governance requirements should take into account the nature of MCCOs including the democratic processes where these are robust. As a result, this particular aspect of insurance regulation can offer both opportunities and carefully consider a balance of obligations on MCCOs. As is envisaged in the ICPs, it may be useful to consider separately defined rules for corporate governance for MCCOs that are both facilitative of access and reflect the nature of the mutuality.

Board and General Meeting of Members

109. The effective functioning of the board remains a key objective of supervisory oversight and should be subject to the same overall review by supervisors. The manner that supervisors and MCCOs achieve this objective may, however, take account of the structure of the MCCOs.

110. When reviewing the set-up and functioning of the governance framework of an MCCO the supervisor may give due regard to the following aspects:

- The corporate structure of the MCCO;
- The size of the organisation and effectiveness of democratic processes in the MCCO;
- Appointing powers;

[46] ICP 7
[47] Guidance 7.0.1
[48] Guidance 7.0.6

- Attribution of decision-making;
- Control issues;
- Suitability issues.

111. The corporate structure – In accordance with the jurisdiction's corporate law, the MCCO could have various structures that will affect the assignment of roles, responsibilities and accountabilities and therefore the effectiveness of the governance framework. As indicated above the policyholders are considered the owners of the MCCO. Generally, under corporate law they are often considered the members of the association (cooperatives, mutuals). They constitute the general meeting of members that is empowered to take the important decisions within the limits of the law and articles of associations or by-laws. The board has ultimate responsibility for setting and overseeing the implementation of the insurer's business objectives and strategies for achieving those objectives, in line with the insurer's long-term interests and viability[49].

112. MCCOs could have a two-tier system in which next to the board a supervisory board is established.[50] The supervisory board will have no executive responsibilities but is assigned with the oversight of the MCCO. While the members of the board are (in principle) appointed by the members, which might not be the case for a supervisory board. A system of co-optation may be applied on the basis of which the supervisory board could appoint its own members. This could help to assure its independence from the board whose activities it is overseeing. The supervisory board will report to the general meeting.

113. Besides a board, the MCCO will have senior-management – sometimes called directors or administrators – who are responsible for the daily operations under the oversight and steering of the board.[51] For small MCCOs senior-management may consist of only one or two directors which may prompt the need for special internal control measures (see below).

114. As members of an MCCO may not all be able and willing to actively participate in the democratic processes, subject to legal provisions in corporate law, MCCOs may introduce a council of members' representatives (members' council). The council members are elected by the policyholders / members. The council typically has some of the powers normally attributed to the general meeting. A members' council could be an effective way to enhance the democratic functioning of an MCCO.

115. Size of the organisation and effectiveness of democratic processes – the democratic processes in an MCCO are likely to work well in smaller size organisations set up as an initiative of specific coherent groups, for example, farmers or fishermen. Their interest in the pooling of a specific risk closely related to their income and livelihood as well as the personal contacts between the people involved in the MCCO may provide an impetus for democratic involvement. As organisations grow and management responsibilities are assigned to professionals, these processes may become more challenged. Groups of members may not all share the same interests or have organised themselves as a group which affects the countervailing power vis-à-vis the board and senior management. Sometimes mutuals and cooperatives are governed in a way similar to share companies with the general meeting being more a formality. In those cases, a members' council may be a helpful way of improving the democratic nature of the MCCO. From a supervisory perspective the supervisor should be aware that democratic processes might not always be functioning adequately which might negatively affect the governance of the MCCO.

116. Appointing powers – The power to appoint the members of the board will in principle be assigned to the general meeting of members. When reviewing the governance framework of an MCCO the supervisor should be aware that their jurisdiction's corporate law may allow

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[49] Standard 7.2
[50] Guidance 7.0.3
[51] Standard 7.10

for exceptions. Sometimes the By-laws may entitle non-members to appoint one or more members of the board. However, it would seem to be against the nature of mutuality if a majority of members of the board would be appointed by non-members. If this nevertheless occurs in practice, it may create a legal dispute between members and the MCCO as legal entity.

117. On the subject of election of members of the board, consideration should be given to the background of the candidates. Traditionally, and very often for small size MCCOs the members will elect the board from among the members themselves. Another possibility is that members need to elect the board from a list of candidates put together by the board itself or by others. Sometimes this list is even binding and no other candidates will be allowed to enter the election process. The supervisor needs to be mindful that - in particular if the election process is not based on corporate law - this might create legal or other disputes that may negatively affect the governance of the MCCO, for example if legal injunctions paralyse the decision-making ability of the MCCO. The background of board members is also important from a perspective of suitability or fitness and propriety (see Paragraph 119). If the by-laws of an MCCO allow the appointment as board member of a non-member this would create the possibility of enhancing specific expertise. Alternatively, the by-laws may have provisions on the board being allowed to hire and be advised by external experts.

118. Typically, the By-laws of an MCCO based on corporate law will contain a fixed term for appointment as member of a board. Additional provisions may exist on re-election. This may pose challenges as to the continuity of the business of the MCCO, in particular if members are assigned to specific areas of attention, for example financial markets, or member of a committee, like an audit committee. Supervisors should be mindful of such continuity issues.

119. Attribution of decision-making – There may be variances amongst MCCOs in respect of the type of decision-making that is attributed to the general meeting of members on the one hand and the board on the other hand. Typically, the general meeting will have the right to decide on a change to the by-laws, approval of the annual report and winding-up of the MCCO. It is important to acknowledge this because it determines who is entitled to take certain decisions for example, in emergency situations in which expeditious measures are needed such as a transfer of a portfolio or increase of the premium. If a supervisor needs to intervene the procedures involving the approval of members or the general meeting as such is something that needs to be considered.

Corporate governance requirements

France: Specific corporate rules for the mutuals of the Code de la Mutualité where, in particular, a) the General Meeting plays a major role, b) One of the effective managers is automatically the Chair of the board meeting.

Morocco: Mutuals are managed by a board whose members are elected by the General Meeting, which sets the strategic directions and takes important decisions according to the statutory provisions. The General Meeting is composed of members of the mutual or their delegates.

Poland: The management board of a domestic insurance undertaking, with the exclusion of mutual undertaking, shall consist of at least two members. Persons contributing to the share capital may be members of the mutual undertaking's management board or the mutual undertaking's supervisory board, to the extent specified in the articles of association.

120. Control issues – Supervisory approval is required for proposals to acquire significant ownership or an interest in an insurer that results in that person (legal or natural), directly or indirectly, alone or with an associate, exercising control over the insurer.[52] Control is typically

[52] ICP 6

exercised through possession of shares and will relate to voting rights and in particular the right to appoint members to the board. Jurisdictional legislation will need to indicate when control is significant for which a threshold will be provided such as 25% or higher of the number of shares or voting rights in the general meeting. As in principle MCCOs do not have share capital nor do members individually have a dominating vote in the general meeting the provisions on approval of qualified holdings are not likely to be relevant. However, exceptions may exist. For example in the Netherlands, some mutuals are allowed to have guarantee capital divided in shares comparable to those of share companies. Therefore, similar hybrid companies might exist depending on corporate law.

121. Although the supervisor may not be in a position to formally approve the acquisition of significant control in an MCCO, - and as part of that approval process check the suitability of the prospective significant owners - the need remains to monitor the control aspects of the MCCO. As part of checks on suitability, significant owners may need to be able to supply additional capital to support the solvency of the insurer. Such a facility might very well be missing in an MCCO, which prompts the need for alternative financial support measures (see the section on solvency).

Requirements / practices in respect of legal or natural persons with a significant ownership / control in the insurer)

Mexico: The mutual insurance companies cannot be controlled by foreign persons or foreign financial institutions.

Tunisia: For mutual societies: there are no such control requirements or practices for mutuals.

Turkey: Control requirements are in line with those of share companies. However, there is a special limit for each shareholder in the Cooperative Law. Each shareholder is to have at least one share (at a value of 100 Turkish Liras) and a shareholder could have a maximum of 5000 shares according to the Cooperative Law.

122. One issue relating to effective governance, and also related to changes of control, is the risk of control of a mutual entity being secured by an aggressive outsider when the democratic processes are less strong. MCCO structures may be more vulnerable to such interventions as the cost of taking control can be lower than would be the case if a direct purchase of equity is required. This can provide an attractive target for asset stripping activities or other frauds. As a result, care is needed to ensure such actions can be subject to effective supervisory oversight and, if necessary, intervention.

123. Suitability issues - The supervisor requires board members, senior management, key persons in control functions and significant owners of an insurer to be and remain suitable to fulfil their respective roles.[53] For MCCOs the persons that are likely to be assessed, or to be subject to suitability testing, are the members of the board and senior management.[54] For MCCOs, the democratic principles imply the members of the board are selected, and representative of, the policyholder / member body. As a result, members of the board usually have a stronger link and obligation to policyholders and may be less subject to types of conflicts of interest between those of shareholders and policyholders. To this extent, such issues could be less of a supervisory concern provided the democratic process works effectively.

124. When a board is constituted largely of elected representatives there is a risk that the board does not encompass the same diversity of experience that a more 'selected' board may arrange. When the democratic process is a key support of governance, there may be a need to ensure the availability of appropriate expertise and diversity of commercial or insurance

[53] ICP 5

[54] See the previous paragraphs on significant owners / qualified controls

experience, otherwise the board may not be collectively suitable in terms of the competencies required. For example, an MCCO based on membership of a particular profession or industry may not automatically draw a board with experience in commercial and insurance related matters.

125. Surveys indicate many MCCOs are very conscious of this issue and they provide regular training for new directors on an ongoing basis, although it may not always be easy to access such training without significant effort. Some MCCOs also indicated their boards are only constituted by members elected and not by any members who also hold management responsibilities and as such are "wholly independent." In addition, there is access to the board to independent experts at the board's own initiative; the ability of individual directors to initiate investigations or to secure advice; or very robust processes whereby directors can obtain access to management to inquire and understand issues – all of which can enhance their oversight role and help the directors in carrying out the responsibilities expected of them. In some jurisdictions, MCCOs are obliged to, or spontaneously adopt the practice of having some appointed independent directors who bring particular expertise to the board. In others, MCCOs may have access to technical service providers as a cost effective way to build and maintain expertise.

126. For supervisors it is important – while being mindful of the democratic principles applying to MCCOs – to recognise the knowledge and expertise required and available in a specific MCCO. When doing so the risk profile of the specific MCCO needs to be considered. For example, if investments are limited to deposits with regulated banks than in-depth knowledge of financial markets may not be necessary. The same applies to actuarial expertise if the products are limited to household insurance only. Those MCCOs specialised in a specific line of business - such as agricultural insurance, funeral insurance or health insurance - will benefit from having senior management with expert knowledge in that specific area. For example, an MCCO insuring livestock could appoint a director with experience as veterinarian. Alternative measures could be considered to enhance expertise for example by hiring experts. However, a certain minimum level of knowledge needs to be present at the level of senior management and the board.

127. Supervisors should be mindful that provisions in supervisory legislation concerning suitability requirements and prior approval by the supervisor of appointments of members to the board and senior management may be perceived to be conflicting with the democratic principles of electing board members. It will in particular become pertinent if a supervisor opposes an appointment or disqualifies an appointed board member or senior manager. MCCOs may see this as an infringement of their democratic rights. Supervisors need to be clear on the legal situation in their jurisdictions certainly in sensitive areas involving the privacy of individuals.

Suitability of board members and key functions (fit and proper requirements and vetting practices)

<u>Morocco</u>: There is no specific requirement in order to be a board member but the court may order the temporary or permanent incapacity to participate in the administration or management of a mutual in case of violation of the law.

<u>Tunisia</u>: For mutual societies, there are no specific rules for board members and key functions now, but according to the draft of the code of mutuals, board members and key functions will be regarded the same way as in insurance companies.

Risk Management and Internal Controls

128. The supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters and internal audit.[55] This is a subject requiring a proportionate approach with due regard to the nature, scale and complexity of the MCCO sector in combination with the desired outcome of the Principle or Standard at hand.

129. If the business of the MCCO is limited, for example, in terms of number of policies, nature of the product, size of assets and investments or number of staff then the design and set-up of the risk management system could be commensurate. Small organisations may not need internal control processes of a complicated nature involving multiple functionaries in the organisation. For example, where the office is run by one director and one administrative member of staff – the direct visual oversight by the director becomes an important control measure.

130. The supervisor requires the insurer to have effective control functions with the necessary authority, independence, and resources.[56] The ICPs require the following control functions to be in place and operating effectively: risk management function, compliance function, actuarial function and internal audit function.[57] It might be a challenge for small MCCOs to assign these functions to (separate) individuals within its organisation. When considering whether an MCCO is complying with supervisory requirements in this respect it should be noted that the relevant Standards speak in terms of functions rather than persons. This means that MCCOs are expected to vest or accommodate the functionality rather than having a separate individual appointed as compliance office, risk manager, etc. This would leave some room of combining these functions. However, it would not be appropriate to combine in one person functions of an oversight nature with functions of an operational nature or administrative nature. Possibly alternatives could be found by hiring external experts such as actuaries or - if possible – arranging support at group or federation level. For that purpose an adequate service level agreement would be needed. In addition, if functions are outsourced, the Board and Senior Management should still maintain adequate control and oversight of these outsourced functions.

Risk management and internal controls requirements

Morocco: Internal controls are not mandatory but some rules exist. As far as risk management is concerned, the law requires separate management of each risk covered with distinct accounting and separate accounts. Concerning the actuarial function, actuarial studies are required when creating a mutual or when changing the amount of contributions (premiums) or benefits.

Tunisia: For mutual societies: according to the draft of the code of mutuals they will be regarded the same as other insurance companies. Mainly the requirements are to appoint an actuary, an external auditor and their responsibilities, as well as specifying the responsibility of the managing director and the board of directors.

Turkey: Same requirements, however their scale is taken into account during the on-site inspections like other share companies.

[55] ICP 8

[56] Refers to properly authorised functions, whether in the form of a person, unit or department, serving a control or checks and balances function from a governance standpoint and which carry out specific activities including risk management, compliance, actuarial matters, and internal audit.

[57] Standards 8.4, 8.5, 8.6 and 8.7 respectively.

4.4 Capital Requirements and Capital Resources

131. Relevant Principles and Standards - The supervisor establishes capital adequacy requirements for solvency purposes so that insurers can absorb significant unforeseen losses and for providing degrees of supervisory intervention.[58] More specifically the ICPs require the supervisor to:

- Establish regulatory capital requirements at a sufficient level so that, in adversity, an insurer's obligations to policyholders will continue to be met as they fall due and require that insurers maintain capital resources to meet the regulatory capital requirements;[59]
- Include solvency control levels in these capital requirements which trigger different degrees of intervention by the supervisor;[60]
- Define a Prescribed Capital Requirement (PCR) which is a solvency control level above which the supervisor does not intervene on capital adequacy grounds as well as Minimum Capital Requirement (MCR) which is a solvency control level at which, if breached, the supervisor would invoke its strongest actions and which is subject to a minimum bound below which no insurer is regarded to be viable to operate effectively;[61]
- Define the approach to determining the capital resources eligible to meet regulatory capital requirements and their value; consistent with a total balance sheet approach for solvency assessment and having regard to the quality and suitability of capital elements;[62]
- Establish criteria for assessing the quality and suitability of capital resources, having regard to their ability to absorb losses on both a going-concern and wind-up basis.[63]

132. MCCO-specific features - Capital requirements for a MCCO may require specific consideration. The financing of the business / activities by MCCOs is different from that of traditional share companies as is indicated in Paragraph 8. Where in the case of an insurer as a share company the risk is transferred from insured to insurer; a MCCO is essentially a risk-sharing mechanism between members. The contributions by the members are used to cover the expenses such as claims made by members, the funding of provisions and the financing of various operating costs. If the financial results of the MCCO show a deficit the members may – in accordance with the provisions in the by-laws - be called to make supplementary payments (member call). Alternatively, the MCCO may decide to reduce the indemnification to meet the available budget. This latter practice should have an adequate legal basis, for example, vested in the by-laws or any other legal document with which the member has agreed.

The extent to which an (additional) premium is charged, or a surplus is returned can be based on various factors for example, proportionate to the advance premium paid. The by-laws will typically determine the method to be applied.

133. Another possible feature of an MCCO is the paid-in subordinate member's account. Any surplus returned to the member may be added to an account held by the MCCO in the name of the member / policyholder. The funds in this account would not be available to the member until the winding-up of the MCCO or possibly at the end of his/her membership of the MCCO. This option would allow the MCCO to keep the funds in the entity and to draw upon it if needed for solvency or financing purposes in accordance with supervisory legislation, corporate law and/or the by-laws. On the other hand member's accounts may pose challenges

[58] ICP 17
[59] Standard 17.2
[60] Standard 17.3
[61] Standard 17.4
[62] Standard 17.10
[63] Standard 17.11

to the MCCO and the supervisor in the case of a demutualisation (see hereafter) or transfer of portfolio when members may question any use of the funds in these accounts.

134. Capital requirements for MCCOs - Within the framework of the ICPs mentioned above the supervisor will need to consider how to accommodate the specific features of MCCOs in its design and application of capital requirements. The ICPs do allow for variations which are appropriate to the nature, scale and complexity.[64]

135. In the calculation of the required solvency, no specific requirements exclusively for MCCOs may be needed. However supervisors may choose to establish a tiered system of licensing and supervision for small size companies with lower threshold solvency requirements (PCR and MCR) or requirements based on a simplified method of calculation for example, the size of the provisions, premium-income or incurred losses over past years. As a justification for such special treatment the fact that MCCOs use a system of collecting contributions as described above, can be taken into consideration in particular for small-size MCCOs in which solidarity is well vested.

136. This is also recognised in the Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets where it states: "*When seeking to enhance access to inclusive insurance markets, the absolute minimum bound for the Minimum Capital Requirement (MCR) may be revised to a lower level reflecting a lower risk profile and more limited need for detailed governance and risk management. This allows a wider range of entities to participate in the provision of insurance services.*[65]" It is up to the supervisor introducing lower threshold solvency requirements to consider whether it wants to set a different MCR and PCR or if both would be at the same level.

137. The lower levels of capital required as mentioned in the previous paragraph could be linked to the tiered system of licensing allowing for lighter-touch oversight of MCCOs with a lower risk profile as mentioned in Paragraphs 91 and 104. In this respect, it should be mentioned that certain small-size mutuals in the European Union are either exempt from the solvency framework, Solvency 2, or subject to a "Solvency 2 light" regime which can be regarded as a proportionate approach to solvency requirements.

Required capital

Australia: Some of the existing friendly societies have been granted relief from having to meet the minimum $10 million capital requirements required of other life insurers.

France: Solvency 2 floors do not apply to mutuals under the code de la mutualité that are entitled to ask members for additional contributions.

Mexico: The regulations do not establish solvency capital requirements for mutual insurance companies.

Uganda: Mutuals have the following capital Requirements = Assets of company + 15% * (Assets – Liabilities).

Morocco: There are no capital requirements, but technical provisions are provided as well as allocation rules and investment surpluses. No mutual is exempted from its requirements.

Philippines: Required Capital for MBAs and Cooperatives are different and much less than regular insurance companies. MBAs: No required capitalisation but an initial guarantee fund of Php5 million (USD 108,000) deposited with IC is required. The IC may require this fund to be increased up to the capital investment of an existing domestic insurance company (Section 405 Insurance Code). For Cooperatives: capitalisation is 50% that of

[64] Standard 7.9 "Any variations to the regulatory capital requirement imposed by the supervisor are made within a transparent framework, are appropriate to the nature, scale and complexity according to the target criteria and are only expected to be required in limited circumstances."
[65] Section 3.17 of the Application Paper

regular insurance companies. For Mutual Insurance companies: the same paid-up capital as regular insurance companies.

Tunisia: A-For mutual insurance companies: Different capital resources. The minimum capital for insurance companies is $3 million TND (about 1.5 million USD) if licensed for a single branch and $10 million TND (about 5 million USD) in the case of multi-branch licenses. For mutual insurance companies the minimum social fund is $1,5 million TND (about 750,000 USD).

138. Capital Resources - In respect of capital resources, the supervisor as mentioned above needs to define the approach for determining the capital resources eligible to meet regulatory capital requirements and their value, consistent with a total balance sheet approach for solvency assessment and having regard to the quality and suitability of capital elements. In respect of MCCOs the Application paper on Regulation and Supervision supporting Inclusive Insurance Markets makes the general point that "*MCCOs may need to align their capital needs with available resources more carefully than entities that can raise capital more flexibly and this should be a matter of attention in their own risk and solvency assessment*.[66]"

139. The paper also mentions that given "*the nature of the MCCO structure, capital will also be an area where the requirements will need to be considered and possibly adapted if MCCOs are new to the market*" and that when establishing criteria for assessing the quality and suitability of capital resources "*any reliance on guarantees should be of a limited duration during a start-up period and be quickly replaced with retained surpluses. Some regulatory and supervisory systems also recognise guarantees from third parties; this has been the way many small mutual insurance entities started.*[67]"

140. Notwithstanding the previous paragraphs, it is important that MCCOs meet a risk based capital level to start and continue to operate. A simple risk based capital formula can be developed in most countries that is informative to the regulator and the insurer on the amount of capital needed. All MCCOs have to be above the risk based capital calculation. MCCOs usually are taking smaller risk so the amount of capital will be lower.

141. In principle, an MCCO would not have issued shares that would constitute tier 1 capital. In respect of the quality and suitability of capital elements typical to the MCCO sector, it may however be appropriate to include contingent elements that are not considered as assets under the relevant accounting standards, where the likelihood of payment if needed is sufficiently high according to criteria specified by the supervisor. Such contingent capital may include, for example, members' calls by a mutual insurer and may be subject to prior approval by the supervisor.[68] The aforementioned Application Paper adds: "*Normally, regulatory or supervisory arrangements do not permit capital that can be raised through future calls on members as "callable but unpaid capital or reserve items" to be eligible to meet regulatory capital requirements. This may be permitted for MCCOs if, among other things it can be demonstrated that such calls had been met in practice and there is very strong solidarity amongst members."*[69]

142. In addition, the supervisor may consider a similar treatment to the paid-in subordinate member's accounts, which has characteristics similar to subordinated loans. The latter are in some countries accepted as a suitable capital element provided the underlying conditions are approved by the supervisor.

143. The valuation of both the members' calls and members' accounts may need verification / certification by an independent auditor. Also, supervisory regulation may enable the

[66] Paragraph 3.33 of the Application Paper
[67] Paragraph 3.34 of the Application Paper
[68] Guidance 17.10.11
[69] Paragraph 3.3.5 of the Application Paper

supervisor to call in unpaid members' contribution and exercise the authority to a members' call in case of financial distress of the MCCO.

Capital resources

Belgium: Certain mutuals are entitled to ask members for additional contributions via a variable premium setting mechanism.

Chile: Legislation for mutuals and for insurance companies does not include specific regulation related to the type and size of resources that can be used to meet the capital requirements. However, limits that apply to investments that back up required capital and technical provisions are different for mutuals compared to insurance companies.

Philippines: MBAs and cooperatives may make capital calls from its members to increase capitalisation.

France: If the mutual is authorised by its by-laws to call for supplementary contribution from its members, such calls, upon supervisory approval, may be considered as capital resources. Besides, mutuals of the code de la mutualité can issue specific capital instruments, called "certificats mutualistes". These 'notes' can be reimbursed only when the mutual is liquidated (if it ever is), and after all creditors have been fully refunded.

Poland: use of members calls – only if the articles of association of mutual undertaking specify the system of members' payments to a mutual undertaking, annual surplus – the articles of association of a mutual insurance undertaking may provide for the repayment of share capital only out of annual surpluses.

Turkey: From the capital aspect, it is sufficient that they have enough capital amount according to the Cooperative Law.

4.5 Portfolio-transfers, Mergers, Demutualisation and Winding-up

144. Relevant Principles and Standards – The following requirements are relevant in the context of this section:

- The legislation defines a range of options for the exit of insurance legal entities from the market;[70]
- The transfer of all or a part of an insurer's business is subject to approval by the supervisor, taking into account, amongst other things, the financial position of the transferee and the transferor. The supervisor satisfies itself that the interests of the policyholders of both the transferee and transferor will be protected;[71]
- A change of a mutual company to a share company, or vice versa, is subject to the supervisor's approval. The supervisor satisfies itself with the new constitution or governing organisational document of the company before giving approval.[72]

Transfer of insurance commitments in respect of MCCOs

145. A transfer of insurance commitments from an MCCO to another entity – either by individual transfer or portfolio transfer or merger – may involve more legal considerations than in the case of such a transfer from a share company. This is caused by the fact that, depending on the legal system at hand in addition to the contractual relationship, the membership relationship of the customer with the MCCO is relevant. The insurance contract between the policyholder and MCCO is governed by (insurance) contract law. This law and/or the insurance supervisory regulations are likely to determine the process and conditions under which an insurance contract can be transferred to another entity. The same would apply to the transfer of an entire portfolio of insurance contracts. In the case of a merger - in which a legal entity is legally integrated with an existing entity or together with another entity merges into a new entity originating from that merger - corporate law will usually also have relevant provisions that need to be complied with.

146. In the case of an MCCO the customer will also have a membership with the MCCO which will entitle him / her to democratic rights in the legal entity including involvement in key decisions in the general meeting such as transfers of portfolio, mergers and a (voluntary) winding-up. In addition, by virtue of the by-laws the customer may have financial entitlements to the assets of the MCCO including possibly his / her member account. All the legal aspects involved need to be considered and the supervisor needs to be knowledgeable of these in order to properly manage any process of transfer, merger or winding-up.

147. Therefore, the supervisor may need to consider the following questions in addition to the consideration from a prudential perspective[73] when dealing with a request for a transfer or merger:

- Which body within the MCCO is legally entitled to decide on the transfer or merger and which roles do the members have? What process was followed in practice?
- Which legal powers do members have to challenge any decision taken in this respect in particular: which legal means do members have to resist the transfer of their contracts individually or collectively (for example cancellation of the contract)? What are the consequences for individual policyholders of using any legal rights to resist a transfer (for example reimbursement of (part of the) premium)?

[70] ICP 12 which applies to situations of insolvency and financially sound run-offs.
[71] Standard 6:10
[72] Standard 6:9
[73] In particular the review of the solvency position of the insurers involved in the transfer or merger

- What entitlements do the members have based on any regulation or by-laws in respect of any funds (including member's accounts), or assets of the MCCO, including remaining profits? Which entitlements will they get after the transfer or merger?
- Are members liable for any deficit or loss of the MCCO based on any regulation or by-laws? If so, what arrangements have been made by the MCCO in this respect at the occasion of the transfer or merger?
- How were the proposals for the transfer and their legal position communicated to the members / policyholders?

148. Other issues relating to transfer of portfolios would normally be identical or largely similar to those issues that arise with respect to the transfer of participating or non-participating policyholder portfolios between shareholder companies.

Transfer of portfolio and merger

Chile: Mutuals are not allowed to merge or to transfer their portfolio.

Morocco: Merging two or more mutuals is pronounced after concordant resolution of the general meeting of the mutual or mutuals witch will disappear and the board of the acquiring mutual. It becomes definitive after being approved by joint order of the Minister of Economy and Finance and the Minister of Employment and Social Affairs. The absorbent mutual receives the asset, in the form in which it is, and must pay the liability.

Demutualisation

149. Demutualisation is the process by which a mutual or cooperative is converted into a share company. Demutualisation could be a formal legal process as such according to national legislation, or de-facto achieved through a merger or portfolio transfer (from mutual to share company). Demutualisation should be subject to the specific approval of the supervisor. In principle it is a particular type of transfer which should be treated as such. However, members in the mutual or cooperative are impacted in the sense that after the transfer they will no longer be a member with only the insurance contractual relationship remaining. As this could negatively affect members' interests the path to change of control through demutualisation should be carefully set out and communicated with the members in addition to their involvement in the required decision-making process/es. In such cases, especially as they may be rare, the supervisor may probably need to be able to request special expert reports regarding the treatment of member interests.

150. It is important that former members are recognised; otherwise, an open demutualisation policy will promote the eventual demise of all MCCOs. All insurance co-operatives/mutuals build up capital over time, as they get older most of the capital comes from prior members who "left money on the table" for the good of the community. In a demutualisation the surplus from these prior clients could be transferred to a community fund and not the current policyholders. For example in a case of demutualisation in Canada all the surplus was divided to current members, when from an actuarial point of view 80% of the surplus was from members who were no longer with that insurer.

Process of demutualisation

Belize: Court approval would have to be given for the demutualisation.

Sri Lanka: In terms of the Companies Act, a cooperative will have to seek registration as a share company and in the Articles state that the new company will take over the affairs of the cooperative.

Tunisia: A- for mutual insurance companies: There is no specific regulatory framework. The demutualisation of local mutual insurance companies that was achieved in April 2014 allowed for a process which includes financial and business analysis, information of members, call for general assembly, and calls for capital. B- for mutual societies: This process is forbidden according to the draft code of mutuals.

France: French legislation does not provide for 'demutualisation' as such. What exists however in practice and has the same or similar result, is the creation of a stock company by a mutual, which then transfers its insurance portfolio to the stock company.

Mexico: The regulation does not establish a demutualisation process. If a mutual company wants to become an insurance institution it must meet with the all authorisation requirements for a new institution.

Chile: Mutuals in Chile are not allowed to take a process of demutualisation since they depend on the Army, Air Force, Navy and Police.

Germany: Also conceivable are restructurings - the mere consequence of which is a change of legal form of a legal entity that changes its legal form, but maintains its legal identity.

New Zealand: Demutualisation would be a strict legal process requiring the approval of affected members and the involvement of the High Court.

Trinidad and Tobago: A detailed plan for the conversion of a mutual company into a company with share capital should be submitted to the Central Bank of Trinidad and Tobago. The Central Bank would appoint experts such as an independent actuary to investigate the financial position of the mutual company and a Financial Valuation Expert. The actuary appointed shall upon completion of his investigation submit a report of his findings to the Central Bank including the allocation of shares to eligible policyholders, the price range that shares in the new company will be sold to public and the rights of policyholders. The Central Bank will also request any such other information that is required such as, details of policyholder communication, particulars relating to the financial state of the company, any changes proposed to be made in the memorandum and articles of association and a statement of actual and/or contingent liabilities as determined by the company's actuary from the Board of Directors of the Company. Where the plan is approved by the Central Bank it shall be laid as a special resolution before the policyholders of the mutual company and the resolution would only be effective when a certain percentage of votes cast by the policyholders are in favour of the process. A prospectus detailing the offering would have to be approved by the Securities and Exchange Commission of Trinidad and Tobago and the new company would have to be registered under the Companies Act.

United States: As there have been more than 200 demutualisations in the life industry alone, and each one has been driven by factors unique to each company's situation, it is difficult to answer so general a question. Demutualisation is conducted pursuant to the state law of the insurer's domicile and is subject to the approval of that state's insurance commissioner; as part of that process the domiciliary state's commissioner will seek the opinion of, and cooperate with, the commissioners of the various states whose businesses or citizens may be affected.

Winding-up

151. As the winding-up of an MCCO marks the end of both the insurance contractual and membership relationship between member and MCCO, the supervisor is obliged to give due consideration to the application of all applicable laws and regulation as well as the by-laws. In addition, attention needs to be given to the liquidation of assets and entitlements to reserves, member's accounts, and other items that members have according to national legislation.

152. As part of the winding-up, the MCCO will likely appoint liquidators to settle contracts and liquidate the assets. Sometimes the board itself may be charged with this task. The liquidators will be accountable to the general meeting and report on its work. The supervisor should monitor this process and review the reports prepared by the board and/or liquidators.

Winding-up

Chile: While there are some requirements in respect of a winding-up for insurance companies that is not the case for mutuals.

France: In the case of a (solvent) run-off, the excess of assets over liabilities cannot be distributed to Members. It can only be allocated to other mutuals, or to some specific non-profit institutions ("associations reconnues d'utilité publique") upon decision of the General Meeting.

Morocco: The winding-up of a mutual must be conducted under supervision of a representative of the Minister of Finance. The remaining assets shall be distributed by the General meeting among other mutuals, on the proposal of the Board and after approval of the ministry of employment and social affairs.

Poland: Requirements relating to winding-up are slightly modified in respect of mutual undertakings. According to article 200 of Polish Act on Insurance Activity, the provisions of Commercial Partnership and Companies Code apply accordingly to winding-up of mutual insurance undertakings with the exception of SMIU. Winding-up of SMIU proceeds in a manner specified in the resolution of the general meeting, but if the supervision authority ascertains that winding-up activities toward SMIU have not been taken or conducted, the provisions of Commercial Partnership and Companies Code apply accordingly to winding-up of SMIU.

4.6 Supervision and Supervisory Review

Supervision

153. Relevant Principles and Standards - The following requirements are relevant in the context of this section:

- The authority (or authorities) responsible for insurance supervision, the objectives of insurance supervision, and the mandate and responsibilities of the supervisor are clearly defined in primary legislation;[74]
- Where, in the fulfilment of its objectives, the supervisor identifies conflicts between legislation and supervisory objectives, the supervisor initiates or proposes correction in legislation;[75]
- The supervisor needs to be operationally independent, accountable and transparent in the exercise of its functions and powers;[76]
- The supervisor exchanges information with other relevant supervisors and authorities subject to confidentiality, purpose and use requirements.[77]

154. The roles of policymaking, regulation and supervision of MCCOs are often shared between a range of government ministries and authorities. As MCCOs can be part of a range of social and economic policy areas including financial services, agriculture, social welfare, health and community relations, the likely range of interested authorities can be greater than would be the case with, for example, other forms of insurers. These other authorities may not all be as fully conversant with issues with respect to providing financial products and services, particularly insurance. It is also likely that arrangements for effective, complete, and coordinated oversight will be more challenging and will have to consider a wider range of potentially competing objectives that will require special attention.

155. In such a situation, it is also possible that oversight of the supervisory elements included in the ICPs may be allocated to one or more authorities for MCCOs and to another for other insurers. Alternatively, the responsibility for most or all of the elements may rest with the one authority or be shared between authorities. As stated above, the clear and transparent allocation of responsibilities is important. It is also important that, when shared, structures for each supervisory authority are in place to ensure the requirements mentioned above are supported in each authority where supervisory functions are carried out to the extent relevant to their allocated responsibility. The expectations for cooperation and information sharing will be critical. See also Paragraph 93 of this paper.

Designation of supervisory authority:

Trinidad and Tobago: Friendly Societies and Co-operatives fall under the purview of the Ministry of Labour and Small Enterprise Development. The insurance industry including mutuals is regulated by the Central Bank of Trinidad and Tobago.

156. As the ICPs apply to MCCOs that are functioning as an insurer, the supervisor – regardless of whether they are the authority responsible for commercial share companies – needs to meet the relevant Principles and Standards mentioned at the beginning of this section. If that supervisor is part of a public organisation assigned with responsibilities of a different nature then care needs to be taken that its operational independence is safeguarded. This might not be the case if the supervisor is a government department that needs to consider

[74] ICP 1 and Standards 1.1 and 1.2
[75] Standard 1.4
[76] ICP 2
[77] ICP 3

other interests than strictly policyholder protection from a prudential or conduct of business perspective.

Supervisory review

157. The supervisor should take a risk-based approach to supervision that uses both off-site monitoring and on-site inspections to examine the business of each insurer, evaluate its condition, risk profile and conduct, the quality and effectiveness of its corporate governance and its compliance with relevant legislation and supervisory requirements. The supervisor obtains the necessary information to conduct effective supervision of insurers and evaluate the insurance market.[78] The supervisor should also have the expertise to distinguish between what is a genuine MCCO and what is one that is operating just under the name. In particular, in the case MCCOs are allowed to operate under a light-touch regime there may be a risk of regulatory arbitrage.

158. This is a general requirement that applies equally to MCCOs as to share companies. It may however pose challenges to a supervisor. First of all the supervisor needs to be mindful of the specific features of the MCCO businesses including the way it is financed. This may require specific knowledge of MCCO relevant legislation as well as its market segment.

159. A second challenge may be the number of MCCOs active in the insurance domain in particular if these are small-sized and show a wide regional distribution. The supervisor may not have the resources to carry out its supervisory activities with the same intensity as for the bigger insurers. In those cases, it is worth considering balancing the supervisor's resources by introducing separate categories of administrative authorisation for small size MCCOs as is described in Paragraph 91 of this paper. The same is done in some countries for micro-insurance companies. This authorisation – possibly a simplified registration process – could be subject to conditions that set boundaries for the types of product lines and size of the business. Such as system could be complemented with provisions on whistleblowing for example by auditors or actuaries if they witness a breach of the conditions that are conditional for a lighter-touch oversight.

160. For MCCOs subject to a restricted licence (i.e. limitations on the type of insurance risks that they are allowed to write), it may not be necessary to conduct regular on-site inspections as part of the risk based supervisory review, given the lower prudential risk that these MCCOs pose. The supervisory review can instead encompass off-site reviews and on-site 'visits' to understand the past financial performance and future business plans of the MCCO. For that purpose, supervisors should have the option to consider relief from *regular* on-site inspections unless there are specific concerns which may require the supervisor to conduct regular inspections.

Reporting to the supervisor

<u>Morocco</u>: Mutuals must communicate each year: the financial statements, the moral and financial reports, the Minutes of the General meeting, the report of the Control Committee, and the financial documents and statistics required by regulation and any other document request by the supervisor.

[78] ICP 9

Annex 1 MCCOs as defined in various countries[79]

Country / Source of law	Definition of Mutual	Form of mutuals	Definitions of different form of Mutuals
France (Insurance Code & Mutual Code) (http://www.assufrance.com/mutuelle_de_sante_en_france.php). (http://www.senat.fr/rap/r98-0452/r98-0452132.html).	According to article L 111-1 of the Code de la Mutualité: "*mutual societies are not-for-profit legal entities under private law. They carry out provident, solidarity and mutual aid-based work, by means including contributions paid by their members, and in the interests of these latter and their beneficiaries, in order to contribute to the cultural, moral, intellectual and physical development of their members and to improving their living conditions*." **Difference between the** sociétés d'assurance mutuelle **and** mutuelles **is that the former is covered under insurance codes and is allowed to practice risk selection**	sociétés d'assurance mutuelle", & mutuelles"	The mutual society has a lot in common with the cooperative society and the non-profit organisation that its customers (and sometimes employees) are associates at the same time. It is fundamentally different from a public service, a commercial company and a charitable or humanitarian organisation in that it provides service, support or relief to its own members and this is within the limit of their involvement. Mutuelles too are non-profit and acquire quality of mutuals. National Registry of mutuals maintains data of such organisations as these are registered under mutual code. They lead their members to improve their living conditions and not necessarily underwrite risks.
UK (http://www.hmrc.gov.uk/manuals/gimanual/gim1180.htm).	A mutual company is a company without shareholders which carries on business on a mutual basis, that is, in such a way that the policy holders are	(a) building society incorporated under the Building societies Act 1986 (c. 53);	Building societies are owned by their members. Borrowers and savers automatically become a member of their society when they take out a mortgage or open a savings account. While their businesses must be run as rigorously as any plc bank – and operate in the same regulatory environment, their purpose is different.

[79] The list of laws and the discriptions in this annex 1 are subject to change and may no longer be accurate.

Country / Source of law	Definition of Mutual	Form of mutuals	Definitions of different form of Mutuals
	entitled to the surplus arising from the business. Legal definition of a 'mutual' was established in 2007, under the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (hereafter called 2007 Act).	(b) a friendly society within the meaning of the Friendly Societies Act 1992 (c. 40);	Definition of friendly societies includes societies (in this Act called " cattle insurance societies ") for the purpose of insurance to any amount against loss of cattle, sheep, lambs, swine, horses, and other animals by death from disease or otherwise ; societies (in this Act called " benevolent societies ") for any benevolent or charitable purpose societies (in this Act called "working men's clubs ") for purposes of social intercourse, mutual helpfulness, mental and moral improvement and rational recreation societies (in this Act called " old people's home societies ") for the purpose of providing homes for the members and others at any age after fifty; societies (in this Act called " specially authorised societies ") for any purpose which the Treasury may authorise as a purpose to which the provisions of this Act, or such of them as are specified in the authority, ought to be extended
		(c) an industrial and provident society registered under the Industrial and Provident Societies Act 1965 (c. 12); or	A society may register as an Industrial and Provident Society if it satisfies either of the two conditions found at Section 1 (2) of the Industrial and Provident Societies Act 1965. The conditions are that: 1-the society is a bona fide co-operative society, or 2- in view of the fact that the business of the society is being, or is intended to be, conducted for the benefit of the community,.
		(d) an EEA mutual society	An EEA mutual can be a European Co-operative Society, a co-operative society in any European Economic Area (EEA) state, or any other type of body specified by the Treasury in secondary legislation
Netherlands	A mutual society (onderlinge waarborgmaatschappij) is an		

Country / Source of law	Definition of Mutual	Form of mutuals	Definitions of different form of Mutuals
	association that concludes insurance agreements with its members		
South Africa (The Long-term Insurance Act, no. 52 of 1998 • The Short-term Insurance Act, no. 53 of 1998 • The Friendly Societies Act, no 25 of 1956 • The Financial Advisory and Intermediary Services (FAIS) Act, no. 37 of 2002. • The Co-operatives Act, no. 14 of 2005)	South Africa does not have specific definition of mutual. It has various laws governing the insurance outreach to the poor. Both the long term and short term insurance acts have defined a number of classes of policies for which a company can register. Long term insurance include benefits payable in the case of a life or disability event, whereas short-term insurance policy classes relevant to micro-insurance include motor and property insurance or personal accident insurance. Effectively the result is a product category-based regulatory system where the nature of the risk event underlying the product determines the level of risk held by the insurer and therefore the appropriate regulation.		**Friendly societies**[80] are non-profit organisations or associations of persons established to provide relief or maintenance during minority, old age, widowhood or illness for members or persons related to members. Such relief could include payment of a sum of money on birth of a child or upon death, insurance of tools used in a trade, unemployment benefits, for education or training of members or their children, or such other business as may be proclaimed in the Government Gazette.
			Co-operatives are autonomous associations of persons (a minimum of five) united voluntarily to meet their mutual economic, social and cultural needs through a jointly owned and controlled enterprise that is organised and operated on co-operative principles. Directors must not be of unsound mind, financially insolvent, or have been convicted of certain offences (theft, forgery, etc.) (s.33 Cooperatives Act).
			Burial societies [81]are generally formed by people who know each other, such as family or friends. An archetypal burial society is characterised by member governance, is not for profit, meets at least once every month and usually has, at the branch (primary

[80] https://www.fsb.co.za/Departments/retirementFund/friendlySocieties/Documents/FSAR2005.pdf
[81] http://cenfri.org/documents/microinsurance/2005/South%20Africa_Regulation%20of%20formal%20and%20informal%20insurance%20markets.pdf

Country / Source of law	Definition of Mutual	Form of mutuals	Definitions of different form of Mutuals
			society) level, no more than 300 to 500 members (and usually far fewer – the average membership ranging between 50 and 80).
			Funeral parlours are primarily in the business of providing funeral services. However, in an attempt to secure a market for these services, many have added a number of financial services to their portfolio. These include insurance (legal and illegal), credit (mostly in rural areas) and savings (pre-paid funerals).
Philippines (Administrative code; Insurance Code chapter VII) Department of Finance Order 15-2012 of 1st June 2012	Any society or association, whether incorporated or not, formed or organised for the purpose of paying sick benefits to members, or of furnishing support to members while out of employment, or of furnishing professional assistance to members, or of paying to relatives of deceased members a fixed or any sum of money, irrespective of whether such aim or purpose is carried out by means of fixed dues, assessments, or voluntary contributions, or of providing for any method of accident or life insurance among its members out of dues or assessments collected from the membership, and any society or association making either or any of such purposes incidental features of its organisation on the basis of fixed dues or assessments specifically provided for to meet such incidental features		

Country / Source of law	Definition of Mutual	Form of mutuals	Definitions of different form of Mutuals
India (Co-operative Societies Act, 1912 (2 of 1912; Indian insurance Act 1938; Micro insurance regulations 2005) Defined in Part 4 Sec 95[82] before recent amendment of 2015	"Mutual Insurance Company" means an insurer, being a company incorporated under the Indian Companies Act, 1913 (7 of 1913), or under the Indian Companies Act, l882 (6 of 1882), or under the Indian Companies Act, 1866 (10 of 1866) or under any Act, repealed thereby, which has no share capital and of which by its constitution only and all policy-holders are members.	▪ Non-Government Organisations	Means a non-profit organisation registered as a society under any law, and has been working at least for three years with marginalised communities, with proven track record, clearly stated aims and objectives, transparency and accountability as outlined in its memorandum, rules, byelaws and regulations, as the case may be and demonstrates involvement of committed people.
		▪ Self-Help Groups	Means any informal group consisting of ten to twenty persons and has been working for at least for three years with marginalised communities, with proven track record, clearly stated aims and objectives, transparency and accountability as outlined in its memorandum, rules, byelaws and regulations, as the case may be and demonstrates involvement of committed people.
		▪ Micro-Finance Institutions	Means any institution or entity or association registered under any law for the registration of societies or cooperative societies as the case may be, inter alia, for sanctioning loan / finance to its members
		▪ Cooperatives	Autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise

[82] https://www.irda.gov.in/ADMINCMS/cms/frmGeneral_Layout.aspx?page=PageNo107&flag=1&mid=Insurance%20Laws%20etc.%20%3E%3E%20Acts

Annex 2 Forms of cooperatives and their purpose

Type of Cooperatives [83]	Country	Primary Purpose
Savings and Credit cooperatives, Agriculture Marketing Cooperatives	Most developing nations Kenya, Ethiopia - Savings and Credit Co-operative (SACCOs),India - Indian Farmers Fertilizer Cooperative Limited (IFFCO) The Netherlands Environmental Agriculture Cooperative-	Access to finance for agriculture, small loans for multiple purposes, environment conservation
Women Cooperatives	India – Self Employed Women's Association (SEWA) Greece- Kastri	Gender Equality for employment and income, Empowerment, social inclusion
Dairy/ Milk cooperatives	Cameroon- Societe des Eleveur de Vache Laitier de Foumbot (COOVALAIF)- India- Milk cooperatives	Food security, Nutrition
Housing Cooperatives	India- National Cooperative Housing Federation of India Turkey- Union of Housing Construction Cooperatives Kenya- National Cooperative housing Union	Affordable Housing for the Urban Poor Slum upgrading and slum redevelopment
Health Cooperatives	Colombia- SaludCoop Turkey – Pharmacy Cooperatives	Access to health care, financing health care, care provision

[83] Source: ICMIF

Annex 3: Examples of the Role of MCCOs

Function	Country	Description
As carriers of insurance risk	West Africa	The UEMOA legislation, brought out **Economic Community of West African States** (**ECOWAS**), has developed a multinational framework which allows mutual social health organisation to underwrite health insurance and simplified accounting requirements have been prescribed for such providers.
As distributors	India	The Microinsurance agent regulations brought out by the Insurance Regulatory And Development Authority (India) have recognised self help groups to tie-up with insurers not only for collection of proposal forms but also for collection and remittance of premium and policy administration service. Local handling of marketing and sales lowers transaction costs.
Supporting premium collection	Philippines India	Remittances of funds from Filipino workers overseas have been an important source of support to local families and the wider economy. Church groups providing support to communities of foreign workers have worked with insurers in the Philippines to collect premiums on insurance products during their regular community meetings and remitting them collectively to insurers, reducing cost and improving the efficiency of these contributions.
As part of the claims assessment process	India	The Microinsurance agent regulations brought out by the Insurance Regulatory And Development Authority (India) have allowed self help groups to assist in the claims settlement process.
As the policyholder of a group insurance product	Sri Lanka Philippines Guinea	Savings and credit cooperatives (SACCOs) are able to reduce transaction costs and offer group insurance coverage tailored to the needs of their members by negotiating lower premium rates than what would otherwise be offered by insurers. This fact is also an example of motivating collective risk reduction through individual action and has implications for influencing the quality and cost of services provided to low-income segments.
As part of the process of understanding customers	India Nepal South Africa	Mutual societies are active in information dissemination of formal social protection and poverty alleviation programs. They also ensure registration of all eligible citizens and monitoring by civil society.
As part of the process of educating	Ethiopia Zambia Brazil	Community groups along with MFIs, perform needs analyses and awareness campaigns in a variety of ways, including focus group meetings, street plays, and inviting microinsurance claims

customers	India	recipients to tell others about the benefits of insurance. This enhances awareness of insurance and encourages collective action and risk reduction activities by all group members.
As providers of complimentary services	Brazil, India Philippines	Many credit cooperatives complement their financial services offering, namely savings and loans, by cross selling life and non life insurance. Sometimes this may involve non –financial products too.

Annex 4 Federations / Associations of Mutuals

1. **Global** - The International Cooperative and Mutual Insurance Federation (ICMIF) is a long established (founded in 1922) and unique global organisation representing cooperative and mutual insurers from around the world. ICMIF holds eight years' worth of exclusive data about the mutual sector. With its global headquarters in the United Kingdom and regional offices in Washington DC, USA; Tokyo, Japan; and Brussels, Belgium; today ICMIF represents 230 values-based insurers in 70+ countries with over USD 270 billion premium income. ICMIF delivers unique networking opportunities; market and member intelligence; and external relations services. It takes a strong lead in encouraging best practice amongst its member firms in key insurance issues, including: performance management, legal and governance, marketing, brand and reputation, reinsurance and social and environmental performance. ICMIF is also active in the fields of microinsurance and Takaful, with Takaful providing Shariah-compliant risk amelioration products to Islamic markets.
2. **Regional** - The Association of Mutual Insurers and Insurance Cooperatives in Europe (AMICE) Created in January 2008 through the merger of the two previously existing associations of mutual and cooperative insurers in Europe, AISAM and ACME, represents the interests of the sector with one united voice. It provides a platform for mutual and cooperative insurers of all sizes to combine resources and expertise, exchange experiences across national borders and discuss key issues and concerns relating to planned legislative and regulatory changes and developments. Significance of AMICE could easily be ascertained with its membership base of 110 direct members representing above 1000 insurers.
3. AMICE promotes the mutual model through various initiatives and having strategic partnership with other key organisations. It works closely with members to advocate and bring relevant policies for growth of mutuals in European market. It enables to voice the concerns of small and medium enterprises engaged in mutual model.
4. The Confederation of Financial Institutions (CFI / West Africa is the grouping of six approved federations of mutual saving and credit: RCPB-(Burkina Faso) FECECAM (Benin) FUCEC (Togo) KAFO JIGINEW (Mali) NYÈSIGISO (Mali) and PAMECAS (Senegal). The head office of the Confederation is in Ouagadougou, Burkina Faso. It is a regional movement of financial unions under the law # 59/94/ADP on the regulation of Mutualist Institutions or Savings and Credit Unions of Burkina Faso since 2007. Its major focus is on representing the cooperative movement as a whole to the authorities, thereby negotiating agreements with the government. It has been continuously striving to improve the visibility of the CFI and its members in Africa and the world
5. **National** - Mutualité Française (National Federation of French Mutual Benefit Societies-FNMF) - FNMF is the leading player in the area of complementary health insurance; covers 38 million people thereby 95% organisations, in France. Its activities fall within both national and local priorities for action. Its efforts are driven towards reducing health inequalities. It leverages through partnerships with other health and welfare professionals and is supported by a network of professionals coordinated at the national level.
6. Co-operatives are enterprises that put people at the centre of their business and not capital. Cooperatives are present in both credit (Urban cooperative banks etc.) and non-credit (marketing cooperatives, housing cooperatives etc.) form, divided into primary, central and state level. Cooperatives, in all spheres, today cover approximately 99% of Indian villages and 71% of total rural households in the country. In 2002, the Government of India enunciated a National Cooperative Policy. The objective of the Policy is to facilitate an all-round development of cooperatives in the country. Cooperative is a state subject

hence multiple state acts exists. With the passing of Multi-state Act 2002, uniformity was expected to emerge across the country.

7. The National Cooperative Union of India (NCUI) is the apex organisation representing the entire cooperative movement in the country. It was established in 1929 as All India Cooperative Institutes Association and was re-organised as Indian Cooperative Union through the merger of Indian Provincial Cooperative Banks' Association with All India Cooperative Institutes Association and later in 1961 as National Cooperative Union of India. At present, there are 207 institutions which are members of NCUI.

8. NCUI works on multiple levels to foster the growth of cooperative in India. It provides networking and advocacy platform by organising events, conferences and seminars etc. It enters into partnerships with other global forums in order to enhance peer to peer learning. NCUI has created awards and expresses opinions through periodical journals, seminar paper etc.

9. To summarise the above discussion, one can conclude that there are various roles played by the apex organisations and federations. Such close associations could result into the development of innovative products and practices beyond usual networking and advocacy.