



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Draft Application Paper on Mutuals Cooperatives and Community-based Organisations (MCCOs)

- Public Background Session -

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Overview

1. Public background session
2. Background of the draft paper
3. Structure of the draft paper
4. Main substance per section
5. Next steps
6. Public Consultation

Public background session

- Provide background information on the draft Paper
 - Answer preliminary questions
 - Two sessions: 22 and 23 June 2016
 - Similar content → no need to attend both
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- Consultation open as of 20 June 2016
 - Comments to be submitted via the consultation tool
 - IAISweb.org → news / consultations
 - Comments by 19 July 2016 midnight Basel time

Background (1) – rationale for the paper

- (Potential) role of MCCOs in inclusive insurance markets
- Avoid unnecessary barriers to enhanced access to insurance by disproportionate supervision and regulation
- ICPs apply regardless of size, nature and legal form
- Distinguishing features of MCCOs merit special treatment in respect of a proportionate application of the ICPs

Background (2)

- October 2010 – Issues Paper on MCCOs
- Application paper will supersede the 2010 Issues Paper; elements of this Issues Paper included in the draft Application
- Advancing from Issues Paper to Application Paper

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.

Structure of the draft Paper / Contents

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Structure → underlying approach

1. Sketch of the context of MCCOs
(organizational, functional, market)
2. Apply relevant ICPs with proper regard of MCCO context and limited to aspects in which proportionate application is called for
3. Aspects:
 - A. Formalisation and Licensing
 - B. Corporate Governance
 - C. Capital
 - D. Portfolio transfer, demutualization, etc.
 - E. Supervision and supervisory review

Section 2: Description MCCO sector (1)

1. Rationale for proportionate treatment of MCCOs and foundation for use to enhance access to insurance
2. Definitions of MCCOs – international context
3. Key defining characteristics: Member ownership, democracy, solidarity, serving a defined group and purpose, not-for-profit
4. Range of organisational forms of MCCOs, incl. mutuals, cooperatives, friendly societies, burial societies, self-help groups →
MCCOs covers a variety of organisations across jurisdictions

Section 2: Description MCCO sector (2)

4. Federations, Associations, Groups and Apex organisations:

- Role of Federations and Associations in improving professionalism (peer learning, education, codes of conduct) and contributing to public sector initiatives
- Role of Groups and Apex Organisations in creating scale and arranging actuarial and other expertise and reinsurance cover

5. Size of the MCCO sector: to indicate relevance and potential of the MCCO sector

Section 3: role of MCCOs in enhancing access to Insurance

1. Importance of insurance for un- and underserved, and
2. To overcome geographic, cultural, business model, service and product design, socio-economic and value challenges
3. MCCOs can play a role as distributors, premiums collectors, in claims assessment, policyholder, voice of its members, educators, complementary services, trust providers, risk carriers.
4. Advantages of the MCCO model: tailor products to member needs, improving client value, links with communities, long term perspective.

Conclusion: MCCOs provide a good alternative strategy next to commercial insurers to enhance access to insurance

Section 4 - ICPs

- Section 4.1 - description of proportionality in general
- Section 4.2 – 4.6:
 - Application Guidance by themes (less sensitive to changes of numbering of ICPs)
 - Focus on specific features of MCCOs relevant to the application of specific ICPs
 - Applying to MCCOs as insurer and - if indicated – as intermediary
 - Structure: 1) Relevant Principles and Standards (recap)
2) Guidance per subtheme based on desired outcome of the relevant Principles and Standards
 - Added examples based on a survey amongst supervisors (box)

4.2 Formalisation and Licensing

1. Scope of licensing: when excluded from “licensing”?
2. Legal forms: national legislation to designate permissible legal forms
3. Licensing modalities: tiered licensing and light-touch oversight if merited based on nature, scale and complexity (proportionality)
4. Licensing authority: different / multiple supervisors in case of MCCOs
5. Formalisation:
 - A. Starting point: MCCOs operating as insurers should be formalised
 - B. Practical guidance how to formalize a group of MCCOs, in particular of not already listed

4.3 Corporate Governance

1. Impact of different board structure on governance (members as owners → general meeting, two-tier system, member council)
2. Impact of size of the MCCO on democratic processes
3. Appointment of the board:
 - A. By members
 - B. From the members or external candidates → (binding) recommendation
4. Decision-making within the MCCO:
 - A. Types of decisions attributed to the general meeting of members
 - B. Decision making in case of emergencies
5. Suitability (Fit & Properness)
 - A. Concerns around sufficient available expertise at board level
 - B. Conflict of supervisory powers versus democratic principles
6. Risk management and internal controls:
 - A. Size of the organisation: visual oversight?
 - B. Functions rather than persons (risk management, compliance, actuarial, internal audit): combining functions? No combinations of oversight with operational / administrative functions
 - C. Insourcing of experts

4.4 Capital Requirements and Resources

1. Acknowledgement of specific features of MCCOs: no share capital; financing through premiums (and yield on investments); deficit covered by members; member calls; subordinate member accounts.
2. Not preempting the ICS: no prescribed method for the calculation of solvency nor statements on quality of capital resources (tier 1, etc.)
3. Requirements:
 - A. proportionate application may lead to a lower level of the Minimal Capital Requirement (MCR) reflecting a lower risk profile
 - B. Linked to tiered-system of licensing: solvency light regime
4. Capital Resources: considerations given / may be appropriate to include elements such as member calls and subordinate member accounts

4.5 Portfolio-transfers, mergers, demutualization and winding -up

1. Impact contract law and corporate law besides supervisory regulations
2. Involvement of members / general meeting in decision making
3. Entitlement of members to assets of the MCCO
4. Examples of demutualisation included

4.6 Supervision and Supervisory Review

1. Designation of the responsible supervisor
2. Clear allocation of responsibilities
3. Adequate cooperation and information-sharing in case of multiple supervisors
4. Supervisory review:
 - A. Apply a risk-based approach to on-site inspections and off-site monitoring
 - B. Need for adequate expertise within the supervisor to understand MCCO business
 - C. Ways to handle supervisory review of large numbers of small-size MCCOs with wide regional spread

5. Conclusions and Recommendations

1. Confirm the MCCO as relevant model to enhance access to insurance
2. Features of MCCOs merit specific consideration to apply the ICPs proportionately
3. Recommendation that supervisors, regulators and policy-makers take note of the application guidance to contribute to enhancing access to insurance and avoiding / removing unnecessary barriers in supervision and regulation

Next steps

- Public consultation ends 19 July
- Drafting group to consider comments, discuss proposed resolutions and revise where necessary
- Feedback session for stakeholders
- Final adoption – expected November 2016

Public Consultation:

- Comments to be submitted via the consultation tool:

IAISweb.org → news / consultations

- Comments due by 19 July 2016 midnight Basel time

Thank you for your attention

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