INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

# APPLICATION PAPER ON PRODUCT OVERSIGHT IN INCLUSIVE INSURANCE

## CONSULTATION DRAFT 29 JUNE 2017

**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 Product Oversight in Inclusive Insurance

## Contents

## List of acronyms

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| A2ii | Access to Insurance Initiative |
| ASIC | Australian Securities and Investments Commission |
| CGAP | Consultative Group to Assist the Poor |
| CIRC | Chinese Insurance Regulatory Commission |
| IAIS | International Association of Insurance Supervisors |
| ICP | Insurance Core Principle |
| IRDA | Insurance Regulatory and Development Authority |
| OECD | Organisation for Economic Cooperation and Development |
| SUSEP | Superintendência de Seguros Privados (Brazil) |
| TCF | Treating Customers Fairly |

# 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 particular 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. The Supervisory and Supporting Material that the IAIS has adopted to promote access to insurance and inclusive insurance is listed in the annex.

4. **About this paper.** This Application Paper intends to provide guidance to supervisors, regulators and policymakers when considering, designing and implementing regulations and supervisory practices on product oversight in inclusive insurance markets. Also, the insurance industry may want to take note of this paper as it is expected to design products that are suitable for their target customers. While the primary focus of this paper is on inclusive insurance markets some of the considerations and suggested approaches could be of interest outside the inclusive insurance space.

5. This Application Paper builds on the Issues Paper on Conduct of Business in Inclusive Insurance (2015) that more broadly deals with the fair treatment of customers in inclusive insurance markets. As is stated in this Issues Paper, in inclusive insurance the need for providing customer value is particularly relevant as an insurance product in an inclusive insurance market can add value to the private objectives of the customer as well as to the overall public policy objective(s) of the country or region. It is therefore essential to provide insurance services that add value in the light of the specific context / living conditions of the inclusive insurance customer. After the completion of this Issues Paper, the IAIS considered it necessary to develop and provide application guidance to clarify how product oversight can contribute to these objectives.

6. Regardless what modality a particular jurisdiction adopts in its approach to product oversight (as discussed in the paper), any approach should be risk based. Here we mean that the supervisor should identify the risks in relation to particular objectives it is trying to achieve. In other words, in the context of product oversight in inclusive insurance the risk based approach should be based on identifying, mitigating and adopting measures against risks arising out of products to the customers.

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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

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

- Section 2 provides explanatory language around the concept of product oversight to demarcate the scope of the paper.
- Section 3 gives a description of the typical inclusive insurance market and typical inclusive insurance customer. This is added to provide the context in which product oversight is applied and needs to be effective to treat the inclusive insurance customer fairly.
- Section 4 explains the concept of proportionality and the impact on the implementation and application of the ICPs.
- Section 5 provides application guidance of relevant ICPs in respect of product oversight from the perspective of the requirements addressed to the insurer.
- Section 6 provides application guidance of relevant ICPs in respect of product oversight from the perspective of the implementation of supervisory oversight in this area.

## 2. Scope, modalities and approaches to product oversight

8. Effective oversight of products that are offered to customers is fundamental to maintaining fair, safe and stable insurance markets. It is therefore a core responsibility and activity of the insurance supervisor. In addition, supporting the development of the market, particularly in the context of inclusive insurance, may be considered part of the ambit of the insurance supervisor. Effective requirements and monitoring of products can support the development of the market by ensuring that products are fair and sustainable, provide value and build a positive reputation for insurance in among previously excluded customers.

9. Product oversight could be defined as different sets of regulations and supervisory tools and processes used by the supervisors to ensure fair treatment of customers in their direct relation with insurers whilst designing, advertising, selling and exercising other rights and obligations arising out of insurance products. The objectives of product oversight are preventing and/or mitigating consumer detriment, supporting proper management of conflicts of interest and ensuring that objectives, interests and characteristics of consumers are duly taken into account. Proper product oversight is beneficial at all levels of insurance supervision. Foremost, it ensures that the customers are treated fairly in their direct dealings with insurers, assists in reducing the risks to the insurers arising out of market conduct risks and strengthens the consumer confidence in the insurance sector as a whole. In ensuring fair treatment of customers, proper product oversight should take into consideration all phases of insurance product's lifecycle, including, its development, sales, promotion, and all other activities connected to the sale of the product. Moreover, product oversight should focus both on the product itself (i.e. coverage, pricing, disclosures, advertising, etc.) and the manner in which the product will be distributed and serviced (identifying target market, sales channels etc.). Product oversight does not end with the design phase; it should also include monitoring whether the product itself is performing as designed and reviewing the product.

10. Product oversight arrangements play a key role in ensuring that the insurance products meet the needs of consumers resulting in treating consumers fairly. In the context of inclusive insurance proper product oversight poses special challenges.

11. Inclusive insurance is a tool affording unserved populations appropriate insurance cover. Inclusive insurance products are often simple, providing only basic coverage, but distribution mechanisms may introduce added complexity through complex value chains or use of technology (e.g. mobile phones). Although proper product oversight should take into consideration that unserved populations may be more vulnerable, regulatory requirements should not create excessive compliance costs thus make inclusive insurance products less affordable.

12. The best approach to product oversight in a jurisdiction should be determined by evaluating risks and mitigating factors in the light of regulatory objectives such as promoting a fair treatment of policyholders, ensuring an orderly market, and encouraging innovations to promote insurance access. Some examples of risks are the following: products do not meet consumer´s needs, inappropriate premium rates (either too high or too low), complex products, less-financially capable customers, inadequate distribution channels.

13. Innovation plays a crucial role in inclusive insurance. Without innovation many approaches to make insurance products affordable would not be possible. If the mandate of the supervisor also includes the promotion of inclusive insurance, the supervisor should also be innovative in applying regulatory and supervisory standards. However, any innovation should be weighed against potential detriment of consumers' interests. Having in mind that the target market for inclusive insurance products has less experience with insurance than the conventional insurance market, conduct of business standards play a crucial role.

14. Product oversight can occur in three main modalities; a principles based, a file and use and a prior-approval approach. These approaches are discussed in more detail in section 6.1. Supervisors may take an approach that is in between or a combination of these

approaches. In addition, there might be different approaches for different products in the same jurisdiction.

15. In practice in many jurisdictions a combination of these approaches exists. The most common combination being prior approval approach for some products, for example products of mandatory insurance, and principle based approach for other products. Prior approval of terms and premiums is more appropriate in specific situations, such as where the insurer is dealing with less financially-capable customers, where products are complex or insurance contracts that are mandatory by law such as automobile liability insurance or health insurance[5].

[5] See Guidance 19.3.2

# 3. Features of the Inclusive Insurance Market

16. This section presents - in particular by reference to the IAIS *Issues Paper on Conduct of Business in Inclusive Insurance* – the main features of the typical inclusive insurance customer, of some of the inclusive insurance products and other aspects that determine the context in which the ICPs need to be applied. Without a proper understanding of this context a proportionate application of the ICPs could be problematic.

17. It should be noted that "inclusive insurance" and "access to insurance" are not issues limited to emerging markets and developing economies. The terms inclusion and access are often used synonymously representing a concept broader than microinsurance[6]. They relate to all insurance products aimed at the excluded or underserved market, rather than just those aimed at the poor or a narrow conception of the low-income market, while microinsurance is specifically aimed at low-income populations. Any type of insurer regardless of its size and legal form can contribute to the enhancement of access to insurance.

18. The IAIS *Issues Paper on Conduct of Business in Inclusive Insurance*[7] provides an overview of the unique features of inclusive insurance markets that confront supervisors with conduct of business considerations that differ from more conventional insurance markets, in particular in respect of:

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

19. <u>The inclusive insurance customer's profile</u>: Although inclusive insurance customers are often well able to manage their livelihoods, they tend to be more vulnerable because of deprivations they face as a consequence of poverty and have limited access to the whole range of risk mitigating tools. Besides financial exclusion and the lack of access to effective mechanisms of risk transfer, low-income customers lack other basic necessities such as education, employment, housing, and access to justice. The IAIS *Issues Paper on Conduct of Business in Inclusive Insurance* further elaborates on the inclusive insurance customer profile[8] in particular by referring to:

- Low education levels and low insurance awareness;
- Low levels of disposable income and patterns of income different to other market segments;
- The nature of expenditures: most of the customer's income is spent on basic requirements such as food and shelter and insurance is not perceived to be affordable;
- Informally or self-employed, rural and poorer urban areas making the inclusive insurance customers difficult to reach; and
- The lack of trust in insurance providers and negative perception of insurance.

20. Thus, the characteristics of the low-income target market make its customers vulnerable to mis-selling, reduced value of products and customer abuse[9].

21. Although the group of inclusive insurance customers is very heterogeneous, in general they require simple products. In practice the inclusive insurance products cover a

[6] Microinsurance is a business line for the low-income segment contributing to access and an inclusive insurance market.
[7] Section 2
[8] Section 2.1 of the IAIS Issues Paper on Conduct of Business in Inclusive Insurance
[9] See paragraph 31 of the Issues Paper on Conduct of Business in Inclusive Insurance Markets

very wide array such as health, agriculture, household property and credit (in connection with micro-financing). This heterogeneity of insurance covers reflects different needs of different inclusive insurance markets globally. Furthermore, it is expected that inclusive insurance will further develop in the sense that it will cover additional risks, which are not covered today, such as motor risks. The same applies to the distribution models in inclusive insurance. In order to reach the end customers, various distribution models are employed, even more so than in traditional insurance.

22. Regardless of the risk covered and distribution model, however, inclusive insurance products and their distribution need to be easily understood to avoid mis-selling. This could for example be achieved by making microinsurance product SUAVE i.e. simple, understood, appropriate, valuable and efficient.[10] Inclusive insurance manifests itself in very different and various forms in terms of coverage, distribution, provision of services and other attributes. The common feature of these different manifestations of inclusive insurance products is the need to take into account the characteristics and needs of the customer, who should be in position to understand the product and to gain value for money out of it. Factors to consider for inclusive insurance are set out below.

23. <u>The country specific context and conditions</u>: The country-specific context and conditions have an impact on consumer vulnerabilities in particular[11]:

- National regulatory framework determining the scope and extent of involvement of the supervisor in conduct of business supervision in a specific jurisdiction;
- The role and involvement of the insurance industry itself in the areas of both consumer dispute redress and consumer education;
- The existence and operations of customer protection associations and authorities;
- Contributions of insurance associations;
- The existence of alternative dispute resolution mechanisms; and
- The functioning of the court system.

24. <u>The distribution models typical for inclusive insurance</u>[12]: the typical business and distribution model as described in the A2ii Cross-Country Synthesis often characterised by a complex value chain, with multiple discrete players (including an administrator[13], a broker or agent, a customer aggregator and a payments platform) affect the relationship between customer and insurer. Multiple parties involved in the distribution will impact product oversight and the efforts that supervisor needs to undertake to verify that customers are treated fairly. They can also markedly impact the cost of insurance coverage (in particular if each involved party receives a fee or some form of remuneration).

25. <u>The digitalisation of inclusive insurance transactions</u>[14]: technical innovations such as Mobile phone insurance or m-insurance, have emerged and been put into use to overcome barriers to access in insurance more than in conventional insurance markets.

[10] Microinsurance product development for microfinance providers, Microinsurance Centre and the International Fund for Agricultural Development, October 2012, p. 14.; http://www.ifad.org/ruralfinance/pub/manual.pdf
[11] Section 2.2 of the IAIS Issues Paper on Conduct of Business in Inclusive Insurance
[12] Section 2.3 of the IAIS Issues Paper on Conduct of Business in Inclusive Insurance
[13] An administrator means a person or entity that has a mandate from an insurer to do administrative work, notably claims administration, on its behalf.
[14] Section 2.4 of the IAIS Issues Paper on Conduct of Business in Inclusive Insurance

# 4. The Proportionate Application of the Insurance Core Principles in the context of inclusive insurance

26. 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.[15] 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.[16]

27. This section of the paper provides general considerations and guidance for an implementation of various ICPs relevant for product oversight 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.*"[17] The terms "*nature, scale and complexity*" subsequently provide the perspectives for considering proportionality. The proportionality principle in the ICPs gives room to tailored solutions to achieve the desired outcome or objective of the relevant Principle or Standard when organising and carrying out product oversight in an inclusive insurance context.

28. In the context of inclusive insurance, products are expected to be simple but there may be increased risks to providing insurance to a vulnerable target market that is unfamiliar with insurance. As such certain aspects of product oversight disclosures and transparency requirements also need to be greater. The "nature, scale and complexity" of the risks of the product across the product lifecycle should consider the risk to the reputation of the insurance industry of poor value, inadequately explained products and poor service from insurers and distribution channels for the inclusive insurance customer segment. In this sense the product and any processes related to the product should be assessed in proportion to the risk to the customer and reputation of the insurance market arising out of the product and/or reliance on the product.

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

29. Proportionality as applied to product oversight in general, and product oversight in inclusive insurance, in particular has two main aspects: a procedural and substantive. The former relates to the internal procedures of the insurer and the latter relates to the product itself and the way the product is distributed.

30. The procedural aspect of proportionality entails that the insurers should adequately recognise and protect the interests of policyholders.[18] This adequacy criterion should be applied in relation to the nature of the inclusive insurance customers.

31. Substantive aspects of application of proportionality principle relating to product oversight entail that the scope of requirements for conduct of insurance business should reflect the combined probability and impact of the risk of unfair treatment of customers,

[15] Paragraph 6 of the Introduction of the ICPs
[16] Paragraph 8 of the Introduction of the ICPs
[17] Paragraph 8 of the Introduction of the ICPs
[18] See ICP 7

taking into account the nature of the customer and the type of insurance provided.[19] Furthermore, the substantive application of proportionality in respect of distribution entails that the insurers should take into account the interests of different types of customers when developing and marketing an insurance product.[20] From the perspective of product oversight in inclusive insurance, this is essential as it expressly requires of insurers a) to identify the nature (i.e. the needs, the interests, the level of financial literacy etc.) of the customers and b) thus identifying the characteristics of the customers taking into account their interests. Where the ICPs contain language such as "clear, fair and not misleading", promotion of products and services, requirements for information at point of sale, "appropriate" advice etc.[21] these terms should be interpreted in proportional manner.

32. Of course in many cases the procedural and substantive aspects apply both at the same time. For example in using a particular distribution model, the substantive application of proportionality should be applied when examining the adequacy of disclosure in that particular distribution model and procedural application should be employed when examining the appropriateness of internal controls ensuring that the distributors in reality provide the customers with such disclosures.

[19] See ICP 16 and Guidance 19.0.3
[20] Standards 19.1 and 19.3
[21] See Standards 19.4, 19.5 and 19.6

# 5. Application guidance for regulations applicable to insurers

## 5.1 Product Design

### 5.1.1 Contractual elements: coverage; terms and conditions; pricing

33. As stated above, the main objective of product oversight regulations is to require insurers to take into account the interests of different types of customers when developing and marketing insurance products.[22] Insurers should follow a robust product design process that takes the specific need of the target market into account when developing inclusive insurance products.

34. The identification and understanding of the needs of the target market plays a crucial role in product design and subsequent product oversight in inclusive insurance. Only with proper market analysis by the insurers and, depending on the approach, also if needed by supervisors, can proper products be designed that meet the needs of consumers. Risks facing inclusive insurance target market(s) can be significantly different from the risks which conventional insurance markets seek to cover by insurance. These differences may arise not only because of lower available income, but arise out of plethora of different reasons, such as lifestyles, geography, seasons, migrating patterns, level of literacy, etc. Insurers should properly research all such features in order to:

- offer products that will bring value to (inclusive) insurance consumers,
- lower the costs of such products,
- ensure the availability of insurers' services after the sale of product,
- properly underwrite the risks and employ a sustainable business model, and
- properly understand the product for the target market.

Market analysis should not end with the design of the product. Monitoring and review of the product should be a continued activity.

35. Moreover in designing a product for the target market which will create value for the client, not only the risk profile in narrow sense should be taken into account. Various other factors, such as the accessibility of claims facilities, attitudes of the target market, local customs, adequate delivery services and other features which might affect the consumers' behaviour should be taken into account.

36. In respect of coverage, proper product oversight in inclusive insurance should include defined and limited insurance cover with few if any exclusions. The coverage should be understandable to the target market even if delivered by unconventional means (such as mobile phones).

37. Part of product oversight arrangements should also be setting in place proper "infrastructure" by the insurer ensuring proper performance throughout life cycle of the product. By "infrastructure" we mean all other activities necessary for adequate performance of an insurance product. Insurer should have in place adequate reinsurance to protect itself and, indirectly, the consumers in case of large claims. Moreover, the insurer should ensure that all of its after sales services such as providing information and, especially, claims process facilities are available to its customers. Adequate "infrastructure" should also take into account proper distribution channels and in advance regulating potential conflict of interest.

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[22] Standard 19.3; also paragraphs 148 – 152 Application Paper on Approaches to Conduct of Business Supervision and section 3.1 "Product Development" of the Issues paper on Conduct of Business in Inclusive Insurance.

38. Inclusive insurance products should be affordable and have a reasonable cost or pricing structure (i.e. the portion of premium that is allocated expenses and profits should not be excessive compared to the portion allocated to claims). Product terms and conditions should be fair to inclusive insurance customers (for example, inclusive insurance products should avoid a large number of exclusions) (see Section 5.1.2).

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

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

Insurance Regulatory and Development Authority, IRDA:[23] "India sees product design as a critical component of conduct of business regulation, with specific relevance to inclusive markets. The low income segment generally has limited financial education. Therefore, the microinsurance regulatory framework defines product parameters such as risk coverage (sum assured) and only certain product categories are allowed."

"Product design guidelines are issued specifically for microinsurance and insurance products targeted at rural / social sectors. Amongst other requirements, products have to meet actuarial scrutiny and comply with regulations, including simple language in policy forms and sales literature. Products have to meet certain features, such as being simple and inexpensive, easily understood, have reduced distribution costs and focus on product lines that are bought rather than sold. … Regulations are currently under review to introduce further safeguards to protect vulnerable customers."

The revised microinsurance regulation in Peru (Resolución S.B.S. N° 2829 -2016) defines microinsurance as insurance that is accessible for the low-income population, designed to meet their specific needs, distributed through intermediaries targeting the low-income population and with a maximum premium coverage of 2% of the national minimum wage.

Microinsurance circulars issued in the Philippines provide clear guidance on the definition of a microinsurance product and how products should be designed. The IMC 1-2010 – Regulation for the Provision of Microinsurance Products and Services[24]:

- Defines microinsurance products according to quantitative limits of premium 5% of daily wage and a benefit cap as above limit of 500 times the daily wage of a non-agricultural worker in Metro Manila.
- Requires microinsurance policies to clearly identify the face amount, benefits, and terms of the insurance coverage and ensure that contract provisions can be easily understood by the insured; documentation requirements are simple; and the manner and frequency of premium collections coincides with the cash-flow and are not onerous for the insured
- Defines rules on product bundling.

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

[24] RIC

## 5.1.2 Use of standardised products and product features

39. A supervisor may set requirements for standardised products (standard contract formats) or specify requirements for product parameters or product features.[25] Even if the target population is coping well, product standards may be appropriate for inclusive insurance business as the target population has less experience with insurance and products need to be simple, affordable and provide value to customers. Product standards are useful in areas of where there is a high risk of consumer abuse, particularly where products are supply driven and solely designed around the objectives by the insurer or the distributor rather than taking the needs of consumers into account. For example, credit life insurance may be designed to serve the needs of the credit provider and the design of mobile insurance products may focus on the objectives of the mobile network provider rather than the policyholder. The supervisor may facilitate ease of understanding and comparison of products for customers as well as wider availability of appropriate products from a wider range of market players, to customers through standardised contracts and product feature requirements. Product standards may also support the supervisor to meet other supervisory and policy objectives, and supporting less onerous compliance requirements for simplified products, more efficient supervision of inclusive insurance business and monitoring financial inclusion targets.

***Consider the interests and fair treatment of customers***

40. In determining the product feature or developing standardised products for the inclusive insurance market the supervisor will consider the fair treatment as well as the needs and interests of the targeted customers for the products.[26] In developing product standards for inclusive insurance products the insurance supervisor needs to understand the needs of customers of inclusive insurance products as discussed in section 5.1.1.

41. Product features can generally be classified into three broad areas: product simplicity, value to customers and fair product terms and conditions for customers:

- Product simplicity, cover, limitations on the risks covered and term of the product.
- Product standards can be used to incentivise the development of better value products[27] that have appropriate benefits with reasonable and affordable premiums. Regulations may contain premium caps if there is no competition to drive down prices.
- Product standards for fair terms and conditions helps to reduce abusive market practices.

**Observed response(s): Simplicity**

Microinsurance product parameters have been defined in various countries for various reasons: some define a monetary benefit or premium ceiling to ensure that microinsurance products are designed for the low-income target market or to limit the prudential risk of dedicated micro-insurers providing only these products. This is for example the case in the Philippines, India and South Africa (proposed). Some impose qualitative product restrictions.

**Observed response(s): Better value products**

In response to poor value credit life products in South Africa the Credit Life Insurance Regulations (2017) set a maximum prescribed cost per month for credit life insurance business (0.2% of the sum assured for mortgage credit life products and 0.45% of the sum assured for other business).

[25] Paragraph 171 of the Application Paper on Approaches to Conduct of Business Supervision
[26] Standard 19.3
[27] Insurance products standards to reach low-income consumers in South Africa: Help or hindrance? Cenfri, 2011

Performance indicators for microinsurance product in the Philippines also focus on the efficiency of microinsurance products (which implicitly links to client value) and customer understanding of the products.

**Observed response(s): Fair terms and conditions**

***Standardised policy wording, limited exclusions and minimum document requirements***

Product feature requirements covering grace periods, maximum waiting periods and exclusions are included in the microinsurance regulatory frameworks (proposed regulatory frameworks) for Kenya, South Africa and SADC harmonisation of microinsurance regulations principles. The maximum waiting period is 6 months non-accidental death for South Africa, 9 months for maternity benefits and 2 months for non-accidental death for Kenya and 6 months or 50% of the contract term for the SADC harmonisation principles.

Peru and Pakistan and a number of other countries have prohibitions on the number or kind of exclusions, requiring these to be minimal, or in the case of Pakistan, precluding exclusions for pre-existing conditions unless the insurer can justify the exclusions to the supervisor.

***Terms for claims settlement***

Peru: claims must be paid within 10 days

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

Mexico: Claims should be paid within five working days

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

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

The maximum time for claims payments is 2 to 10 working days, depending on the type of product, for the SADC harmonisation principles.

### *Ease of understanding and product comparison (reference)*

42. Prescribed product features and standardised products give customers more clarity on cover provided and common terms and conditions, which may reduce misunderstandings of the benefit promises and policyholder duties over the term of the product. Endorsement of standardised products and product features by the supervisor can give credibility to products and build confidence in inclusive insurance products. Creating and collectively marketing a common brand for standardised products or products that meet prescribed features can build trust in the brand and the related products. An additional advantage is that, consumer education programmes on insurance can focus on standardised products and prescribed product features, thus building awareness and a common understanding of insurance in the market.

43. Standardisation of products or product features also allows for consumers to compare products more easily. This allows customers to select products that are more appropriate to their needs, where some product differentiation is permitted.

**Observed response(s): Ease of understanding**

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

**Observed response(s): Credibility**

The use of a logo identifying microinsurance products building awareness and confidence in products:

- In Ghana, all product material for all microinsurance products is required to show the microinsurance logo.
- In the Philippines all other Microinsurance products approved by the Insurance Commission based on the Circular, should prominently display the Microinsurance logo on the face of the policy contract. This is to enable the customers to immediately recognise that they are buying Microinsurance.
- In South Africa, logos were developed for the Zimele and Mzanzi products but with limited success in developing a common brand.[28]

44. But there is still potential for misunderstandings and customer dissatisfaction with products. This could occur if standard product features are different to what customers expect based on existing products, including informal cover (cover provided by unregistered entities for example funeral cover provided by funeral undertakers) available in the market. For example, introducing standardised one-year renewable term products may go against the expectation of customers if existing products in the market offer whole of life products where level premiums for life for funeral insurance.

45. In addition, if product standards set out general principles for certain product features, subtle differences in product features may lead to false expectations, if customers expect products to be identical.

***Encouraging more players to enter the market, removing regulatory barriers and more effective supervision***

46. Hesitant insurers may be encouraged to become involved in inclusive insurance business, if standardised products are available and high product development costs are mitigated.

47. Standardisation of products can contribute towards lowering regulatory barriers to the expansion of inclusive insurance markets. Restrictions on products that aim to simplify microinsurance business can also be used by supervisors to limit the risk and complexity of the business which can support less onerous regulatory requirements (for example prudential requirements) and reduce regulatory barriers to the expansion of inclusive insurance.

**Observed response(s): Limiting the risk of the business**

The following product limitations are used by supervisors to limit the risk of microinsurance

[28] Insurance products standards to reach low-income consumers in South Africa: Help or hindrance? Cenfri, 2011

products:

- Maximum term of 12 months (Kenya, South Africa, SADC principles of harmonisation of microinsurance regulations)
- Maximum benefit levels (Nigeria, South Africa, SADC principles of harmonisation of microinsurance regulations, India, Philippines)
- Risk only cover and sum assured basis (Kenya, South Africa, SADC principles of harmonisation of microinsurance regulations)

48. Product standards can result in greater efficiencies in supervisory processes for product approval, allowing for faster product approval and the supervisor to identify non-desirable and non-compliant product features more easily. For standardised products, the supervisor will need to focus more on the sales, servicing and operational processes around the products.

**Observed response(s): Efficient product approval**

Brazil: Faster product approval by SUSEP. On average, product approval is obtained in three days as long as the product operates with standardised coverage and exclusions with minimum document requirements as per the microinsurance regulation. This facilitates the insurance supervision since it allows a quick product analyses by the supervisor authority and helps to perform inspections focused on more specific aspects such as checking payment of claims within period, policy sum assured limits, adequate policy delivery, use of appropriate distribution channels and so on.

49. On-going monitoring of product experience may also be more efficient. Standardisation of product features facilitates comparison of (financial and customer experience) across products and allows for the development of benchmark indicators for value to customers and viability of products. It is then easier for the supervisor and industry to identify products where experience falls outside of expected benchmarks and to apply the necessary corrective measures. Insights from the collective experience can be used to adjust product features to better meet the changing needs of customers over time. On-going monitoring of inclusive insurance products is discussed further in section 6.2.

### *Monitoring financial inclusion targets*

50. Several jurisdictions have set targets to expand insurance cover for low-income and under-served markets. Financial inclusion targets may incentivise product suppliers to provide poor value inclusive insurance products, product standards can go some way to addressing these potential negative consequences of targets. Business volumes of standardised products or products that comply with prescribed product features have been used to measure increases in number of policyholders from underserved markets.

**Observed response(s): Financial inclusion target**

India: targets for the rural and social sector, products need to meet minimum product standards; 7% (first year) to 20% (tenth an subsequent years of business) of insurance policies should come from the rural sector for life insurers and 2% (first year) and 7% (for ninth and subsequent years of business) of policies should come from the rural sector for general insurance. 0.5% (first year) to 5% (tenth and subsequent years) should come from the social sector for all types of insurance.

Zimele and Mzanzi products developed by industry in South Africa as product defined to be used to measure progress with meeting Financial Sector Charter financial inclusion targets for insurance.[29.] The Access Targets in the Financial Sector Codes of the codes of Good Practice of Broad-based Black Empowerment in South Africa allocates points for appropriate products, market penetration and ease of access.

***Approach and considerations in developing product standards***

51. The needs of consumers should to be well-researched and tested initially so that prescribed product features and standardised products cater for the needs of the specified customer markets. A rigorous process should be followed, in which prescribed product features and standardised products are developed by persons with the relevant skills, knowledge and experience. The continued suitability of product standards should be monitored and updated over time as necessary.

52. Both the supervisor and industry have an interest in developing the market and having fair and financially sound products available in the market. Standardised products or standardised product feature requirements can therefore be developed in combination with a process of dialogue between the supervisor and the insurance industry. This approach leverages off collective skills and experience and may overcome some of the barriers of lack of access to skills, prohibitive costs and limited experience in developing inclusive insurance products. A collaborative approach may encourage buy-in from insurers to include standardised products in their product offering and insurer compliance with standardised product features when designing products. But care should also be taken to ensure that standardised product feature requirements and standardised products developed in collaboration with insurers still meet fair treatment of customer principles.

**Observed response(s): Collaboration with industry**

"In the Philippines, a prototype Microinsurance policy contract for non-life product (covers basic peril to life, properties and livelihood) and life products (term life and life contract with cash value) have been developed jointly by associations of insurers and the Insurance Commission through a Technical Working Group". [30] The development of product prototypes with insurers helped to generate their buy-in. Also, by including insurers in the process, both insurers and government learned more about good microinsurance and this has spread to other products and processes.[31]

The Zimele and Mzanzi products in South Africa were developed through the insurance industry associations[32]

53. Product standards can be used to meet supervisory objectives for inclusive insurance in terms of protecting consumers, developing a competitive inclusive insurance market, addressing regulatory barriers and facilitating effective supervision of inclusive insurance business. But prescriptive requirements on product features and standardised products may:

- not fully cater for the needs of all members of a targeted customer group, particularly if the group is broadly defined, or not fully cater for the changing needs of customers over time,
- restrict product innovation and deny customers access to possibly more appropriate innovative products,
- limit product differentiation and the choice of consumers,
- inadvertently interfere with sound business practice and the financial viability of inclusive insurance products.

[29] Insurance products standards to reach low-income consumers in South Africa: Help or hindrance? Cenfri, 2011
[30] Report Regulatory Impact Assessment Microinsurance Philippines, 2016
[31] Report Regulatory Impact Assessment Microinsurance Philippines, 2016
[32] Insurance products standards to reach low-income consumers in South Africa: Help or hindrance? Cenfri, 2011

54. The supervisor needs to strike a careful balance when setting product standards to address concerns over low value of products to client and fair terms and conditions. Product standards should therefore not impact negatively on the insurers ability to manage risks (for example anti-selection), create perverse incentives to be considered in setting maximum premium rates or the prescribed assumptions to be used in calculating insurance premiums at a level which prevent in inclusive insurance products that meet the prescribed standards from being commercially viable.

55. Some jurisdictions take a principles-based approach that sets up best practice principles (e.g. Ghana) while other take a more prescriptive approach setting out detailed product standards (e.g. proposed approach for South Africa). Detailed product standards may prescribe mandatory product features, policy clauses and disallow unfair contractual clauses (for example exclusions).

56. A broader more principles-based product standards allow for flexibility in products and can accommodate variations in specified target customers, business models and improve inclusive insurance products over time. This allows more scope for innovation and product differentiation. But a principles-based approach loses some of the advantages of facilitating a common understanding of insurance products, ensuring the ease of comparison across products, removing barriers and more efficient supervision of the market. A balance needs to be achieved in setting product standards to protect consumer while promoting access to insurance and growth in the inclusive insurance market.

57. It is also important to bear in mind that the product standards will create expectations of how insurance operates. This is particularly relevant to inclusive insurance if these products are the first experience customers have with insurance. When setting product standards, it is therefore important to consider the expectations on insurance that the supervisor wants to create and consider that customers may graduate to other more complex insurance policies over time.

58. Weaknesses in product standards may lead to dissatisfaction with products or withdrawal of products from the market and may impact on a large number of customers. There is also a risk to the reputation of the supervisor if the supervisor has set inappropriate standards for product or the supervisor has endorsed inclusive products that fail in the market. Inclusive insurance products are generally high frequency, low severity claim products, where accordingly the risk margin does not need to be overly high. It is important that in average, the policyholders should get back a fair part of the premium they have paid. The claims ratio can be an important risk indicator for fair treatment of customers in this regard. For example, a persistent low claims ratio could trigger the supervisor to assess whether the insurer is offering suitable products and charging a fair premium. Such threshold should naturally take into account the type of coverage provided, especially expected volatility of the results over the expected time horizon.

## 5.2 Product Governance

### 5.2.1 Product Governance in general

59. Regardless, whether the supervisor adopts prior approval, principle based or a combined approach, product oversight arrangements are closely tied to governance arrangements of insurers. In cases of principle based approach the activities of the supervisor should be focused on the governance arrangements, which does not mean that in the prior approval approach such arrangements have any less significance. For the purpose of this paper Product Governance means internal processes, organisational arrangements, functions and strategies by insurers aimed at designing, distributing and reviewing the insurance products throughout their lifecycle. As such they form part of Corporate Governance.

**Observed response(s): Governance**

South Africa: The Financial Services Board has introduced a framework for treating customers fairly. The first outcome for measuring fair treatment of customers is:

Customers are confident that they are dealing with firms where the fair treatment of customers is central to the firm culture[33].

Insurers providing products, including products to inclusive insurance customers will need to demonstrate that they are meeting this outcome for the fair treatment of customers.

India: The relevant framework provides for the setting up of a Product Management Committee (PMC) by non-life insurers and health insurers which is an internal committee of the insurers looking into planning, designing and pricing of products and filing them with the Regulator. The PMC has a role to play in all products –be they those requiring prior approval wherein the products are run through the PMC before they are filed for prior approval or those that may be launched by the insurer and then filed with the Regulator. In the case of the latter, the product needs the approval of the PMC. Thus there is an internal governance requirement enunciated by the Regulator that ensures that the products follow a systematic method of development, scrutiny and implementation.

60. Insurers are required to establish and implement a corporate governance framework which, among other objectives, adequately recognises and protects the interests of the policyholders.[34] In context of inclusive insurance, the interests of Board and Senior Management of mutuals and cooperatives need to be aligned with the broader interest of policyholders.[35] The insurers' Senior Management needs to promote fair treatment of customers.[36] Recognition and protection of policyholders (as contained in ICP 7), should be adequate for the level of knowledge of customers, their awareness and risks to them arising out of products offered, and insurers should establish product governance processes accordingly.

61. Key governance arrangement to be applied in the context of inclusive insurance products' oversight is the requirement that the ultimate responsibility for products offered to inclusive insurance market lie with the Board and Senior Management of the insurer. This responsibility includes responsibility for all phases of product development, as well as for constant monitoring, review of the products and distribution. Moreover, insurers' Board and Senior Management should bear the responsibility for distribution of inclusive insurance

[33] TCF Roadmap, Financial Services Board, 2011
[34] ICP 7
[35] Guidance 17.0.6
[36] Standard 17.10

products regardless whether the distribution is part of insurers' organisation or is outsourced to third parties.

62. In terms of processes, the insurers are required to maintain, operate and review a process for each insurance product or significant adaptations of insurance product before it is distributed. The process should be proportionate to the nature of the insurance product.

63. Given the nature of inclusive insurance business model, the following risks to the consumers should be especially taken into account while applying the principle of proportionality to insurers' governance arrangements. Such arrangements should especially consider the level of financial literacy of the target market and the role of third parties in a particular business model. Special care has to be given to the issues of conflicts of interest; the customers might not be aware what is the role is of different kind of intermediaries and in whose' interest they perform their services. Insurers' system of governance should also ensure that the sales model does not give distorted incentives and consequently encourage the intermediaries and/or own salesforce to push on the customers the products which are not in their interest. Inclusive insurance market is also very exposed to the risks of misrepresentation; the customers might be illiterate or may lack access to durable means of storing communication. Often the main representations will be given orally and the insurers should ensure appropriate internal control for avoiding misrepresentation.

64. Part of the product governance is monitoring the performance of products for inclusive insurance customers in terms of financial viability and fair treatment of customers. Fair treatment of customers involves ensuring that inclusive insurance products provide value to customers and that the terms and conditions of the product fair taking the characteristics of the target customers into account. Monitoring the performance of inclusive insurance products is discussed further in section 6.2.

65. In ensuring proper processes for product oversight, an insurer has to have in place effective systems for risk management and internal controls, including effective functions for risk management, compliance, actuarial matters and internal audit. In overseeing different processes tied to product governance in inclusive insurance, the key functions and other persons responsible for internal controls, should be always aware, that they perform such function primarily to ensure fair treatment of customers. In the context of product oversight in inclusive insurance, the main roles of key functions are the following.

66. Actuarial and risk management function should oversee that the product provides the value for money for inclusive insurance market, while at the same time ensure sustainable business model.

67. The compliance function should oversee that all the rules and regulations are complied with, including the strategies for direct dealing with consumers (such as distribution, information, claims and complaint processes).

68. The internal audit function should independently oversee the quality and effectiveness of insurers' governance arrangement related to product oversight.

69. Proper system of governance is one of strongest safeguards for ensuring the fair treatment of customers, but can also present very considerable operational costs for the insurer. It should be born in mind, that eventually all operational costs of an insurer are ultimately transferred to policyholders. Thus, a very sophisticated governance arrangement could practically mitigate the risks to the customers, but could make a product prohibitively expensive. Again, the main challenge is in applying the principle of proportionality in an appropriate way. For example, very simple product may not need a fully qualified actuary in the design process, but would require very high level of engagement of the compliance function to verify whether all appropriate procedures have been followed in the sales process.

**Observed response(s): Microinsurance Actuarial Technician**

The proposed microinsurance regulations for South Africa indicate that pricing of microinsurance products should be undertaken by a Microinsurance Actuarial Technician (MAT). The MAT is expected to have some level of actuarial qualifications and relevant pricing experience, but is not required to be a fully qualified actuary.

70. Given the business model in inclusive insurance, ensuring fully independent and separated key functions may be a challenge for small specialised inclusive insurers. The regulation and supervisory practices should allow some simplifications in this respect. However, such simplifications should be commensurate with risks to the insurers and to the customers arising out of the business model. Two main models of reducing costs of key functions are outsourcing of key functions and merging a key function with another (key) function. In case of outsourcing of a key function, the insurer has to ensure that the outsourcing does not present a bigger risk than if the function would be in-sourced. In case of merging of a key function with another function, the insurers should ensure that any potential conflict of interest is properly managed, that operational independence is ensured and that the key function still has enough time and resources to perform its function.

71. Apart from innovation, the use of third party service providers is one of main features of inclusive insurance. Third party providers cannot only significantly lower the operating costs of insurers but can provide the facilities for a whole new business or distribution model for insurers making particular product(s) affordable. Such third party providers come in many forms, such as administrators, brokers/agents and aggregators. In designing proper governance arrangements in inclusive insurance product oversight, the insurers should foremost take into account the following risks related to the arrangements with third party providers.

- The continuation of services; the insurer should ensure the continuity of services by a third party provider (especially if the business model depends on third party's services) and make contingency plans for the case the third party provider ceases to perform its services.
- Controls over third party provider; third party provider will often be the entity(es) which will be most or all of the time directly interact with the customers.
- The insurers should adopt an appropriate system of controls to ensure that the customers are properly served and that the third party providers are not acting against the best interests of consumers, which might result in the risks to the consumers directly, risks to the insurer and systemic risks (such as reputational damage to the insurance sector).
- The insurers' senior management and the board should be ultimately responsible for any activities by the third parties. Insurers should maintain appropriate oversight of the third party service providers and supervisors should have power to supervise the way insurers carry out these oversight activities.

72. In respect of outsourced activities, proper internal controls need to be implemented while still promoting the use of third party providers in promoting inclusive insurance.[37] The basic principles to be applied are:

- The insurer must retain ultimate responsibility for outsourced activities;
- The fact of outsourcing an activity should not present a bigger risk as compared if such activity would not have been outsourced
- If certain product would not be feasible without outsourced activities, the supervisor should see the business operation as a whole and assess it as such.

[37] See Standard 8.8

**Observed response(s): Management of Outsourcing Arrangements**

In India, for example, there are specific guidelines for insurers on outsourcing. The outsourced activities are monitored through off-site returns as well as on-site mechanisms to examine whether activities that ought not to be outsourced (such as those fundamental to the business of an insurer) are being outsourced.

### *5.2.2 General information disclosure (including pre-contractual), promotion and advertising*

73. The ICPs provide guidance on the conduct of the business of insurance and how to ensure that customers are treated fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied. This includes the provision of accurate, clear and not misleading information to customers before and after the contract is concluded.

74. The supervisor requires insurers and intermediaries to promote products and services in a manner that is clear, fair and not misleading. The supervisor also sets requirements for insurers and intermediaries with regard to the timing, delivery and content of information provided to customers at point of sale.[38]

75. Disclosures for inclusive insurance products should follow the same principles as conventional insurance products. Disclosures should be easily understandable, provide information on key features on the product (approaches) and should not obscure important statements or warnings (e.g. exclusions).

76. Promotion material, disclosures at the sales stage should provide customers with sufficient information so that they can make informed decisions about the purchase of insurance. Customers need to be able to evaluate the appropriateness of insurance products in relation to their personal circumstances and to properly assess fees and pricing structures.

77. The high degree of information asymmetry between insurers and their customers is a significant source of conduct risk in particular in the inclusive insurance market where familiarity with the products tends to be low, and normal levels of disclosure may not be understood.[39] Pricing, terms and conditions of insurance products can often be opaque or even deceptive, particularly for low income consumers.

78. It is therefore important that insurers provide customers with key information that is not misleading, deceptive or confusing but informs them of the fundamental benefits, risks, and terms of the product and enable them to make informed decisions. This is dependent on information disclosed to them through various channels including advertisements and promotions, presale, point of sale information and post-sale information.

79. Insurers need to have adequate policies and procedures in place regarding product promotion and disclosure to customers, and these policies and procedures need to be implemented in an effective and on-going manner.[40] Insurers and intermediaries are responsible for the timing, delivery, and content of information provided to customers at point of sale.[41]

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[38] Standards 19.4, 19.5 and 19.3; also Paragraphs 156-160 and 166-168 of the Application Paper on Approaches to Conduct of Business Supervision.
[39] A2ii – IAIS (2014)
[40] IAIS Application paper on approaches to conduct of business supervision (2014)
[41] Standard 19.5

80. It is important that insurers and intermediaries consider the needs of previously excluded target markets and the nature of the product when determining the information to be provided to customers at the sale stage. Less complex products may facilitate clarity in product disclosure information for customers who have little prior experience with formal insurance products. In addition, insurers and intermediaries need to comply with any requirements relating to minimum or standardised disclosures relating to inclusive insurance products (see sections 5.1.2 and 5.2.2). In addition, persons involved in the sale of inclusive insurance products need to be trained in the product features and sales processes for these products. Insurers will also need to have controls in place and monitor the activities of its sales force under employment and all intermediaries to ensure that good sales practices are carried out in practice. Having regard to proportionality, requirements under ICP 20 and in particular under Standards 20.2 and 20.6 should apply to inclusive insurance. Special regard should be given to Guidance 20.12.14 (in life business, quantitative information on minimum participation features and actual distribution to policyholders), and to Guidance on claims development triangle in non-life which allows the public to assess how much of the premium is returned to policyholders and how quickly this is done. Pursuant to ICP 20.6, the supervisor should disclose, or require the insurer to disclose, the loss (claim) ratio (for non-life insurers) and the expense ratio (for both life and non-life insurers).

**Presale Disclosure – Advertising and promotion**

81. Advertising and promotions, including any media used to publish advertising and promotional material, should also be appropriate for the target market. Information regarding the product or services in the advertising and promotion materials should be defined or adequately explained in a manner that the target market will be able to understand.

82. Advertising and promotions should clearly explain what the product or service is all about, how it works and how customers will benefit from it. Because advertising and promotions creates customer expectation, it is important that it clearly includes key limitations, exclusion, risks, charges and any other material contractual terms and conditions. This will enable customers to understand what to expect from the product before purchasing it.

83. Advertisement and promotion materials should not mislead customers with limited knowledge of insurance products and should not exaggerate the need for urgency which could pressure targeted customers into make a hasty decision.

84. When conducting product oversight, the supervisor may assess the fairness, clarity and quality of product advertisement, promotion and marketing materials and information disclosed to determine whether the information is sufficient to enable customers to understand the product they are buying. Further information on the assessment of promotion and advertising is found in sections 6.1 and 6.2.

**Observed response(s): Advertisements**

In India, there is a specific framework built around advertisements through regulations. While insurers are free to advertise their products, they ought to file them with the supervisor once published. Insurers are guided by the laid down provisions which advocate transparency and ban misleading advertisements. For instance, advertisements shall necessarily display the name of the insurance company along with the registration number and the unique advertisement number etc.

Mongolia: Insurers can be asked to withdraw advertising the supervisor considers misleading.

**Disclosure at point of entering into a policy**

85. The information provided at the point of entering into a policy should be easily understandable and consistent with the result reasonably expected to be achieved by the majority of customers of that product. This information must also include the basis for any claimed benefits and any significant limitations, and not hide, diminish or obscure important statements or warnings

86. It is important that insurers or intermediaries should disclosure and explain key information about the product at a stage of deciding whether to purchase the product or not. Customers are more likely to be receptive to information about the product at the point of sale and therefore, to make a more informed decision.

87. It is also imperative that key information is provided in such a way that consumers can easily locate, compare and understand the information needed to make an informed decision.[42] Excessive fine print or lengthy texts or texts in capitals can flood them with information, distracting them from the factors that are most important for their decisions.[43] Customers do not always check the terms and conditions of policies particularly, if it is disclosed in the fine print or in any other typographic device that is difficult to read. The focus should be on a few key disclosures needed to make an informed choice, as lengthy and complex disclosure may not be read or understood by customers (e.g. exclusions and important terms and conditions in small fine print).

88. Disclosures should be delivered in a durable and accessible medium either written or by electronic means if this is appropriate for the targeted customers.

89. The effectiveness of disclosure is dependent on the level of financial literacy in the market. The supervisors should ensure that the design of the product and the way in which insurers and intermediaries' disclosure information takes into account the level of knowledge about the product.

90. In this regard, information should be disclosed in an unsophisticated manner, to enable customers that are not financially 'savvy' or (street) smart, or have limited experience with formal insurance to understand the product and make informed decision. Information should be disclosed in a plain and simple language that can be easily understood by customers. To cater for customers who are unable to read, the information should be provided both verbally and in writing. Depending on the jurisdiction involved, use of vernacular or local language for disclosures, apart from for policy wordings etc., would also be necessary.

91. A simple designed product can easily be understood by customers with low levels of financial literacy and as a result makes disclosure less complex. If disclosure is too complex then the design of the product might not be appropriate (e.g. too many exclusions).

**Observed response(s): Disclosure requirements:**

In the <u>Philippines</u>, the policy contract for prototype microinsurance contracts is 1 page only, and written in Filipino and simple English and discloses the key information about the product and insurer being required by the Insurance Commission.

The National Policy Document for Microinsurance in South Africa proposes that microinsurance policy documents must have a policy summary, in English, of no more than one page in a clear and readable print size, spacing and format. It must clearly state the name of the microinsurer and that it is registered with the FSB as a microinsurance provider.

In <u>India</u> there are also specific disclosure requirements that are required to be reflected in

[42] National Treasury (2014)
[43] Chien (2012)

a prospectus and other sales material and at the point of sale that are enunciated in the Regulations for Protection of Policyholders. Further, there are guidelines for mandatory projected benefit values in life insurance. The Health Insurance Regulations also specifically provide for a Customer Information Sheet (similar to Key Features Document) that requires disclosure of certain specific aspects of the product.

Brazilian regulation explicitly stipulates that "customers must be well informed and there should be full transparency. Insurance should be offered to customers in a correct, clear and accurate way, with adequate information in Portuguese on their characteristics".

China requires that simple insurance certificates with all the relevant details of both parties and the policy are issued to policyholders.

In Peru, regulations promote the transparency of the insurer identity, sales channel, risks covered, exclusions, claims procedures and insurance premium, commission to intermediaries, and require insurers (directly or through their sales channels) to provide detailed information.

Requirements for simple language and appropriate disclosure are also included in the regulatory frameworks (or proposed regulatory frameworks) for Ghana, Kenya and the SADC principles for harmonisation of microinsurance regulations.

**Observed response(s): Language of disclosure:**

Pakistan's microinsurance regulations (2014) stipulate that "any disclosure made to the microinsurance policyholder is written at least in the Urdu language."

India's microinsurance regulations stipulate that "every insurer shall issue insurance contracts to the individual micro-insurance policyholders in the vernacular language."

**Observed response(s): Mode of disclosure:**

In inclusive insurance often new ways of providing information are being used.

This is for example the case in mobile phone insurance in which text / SMS messages are used to confirm the cover, premium payment or claims settlement. The customer needs to be able to save and use these messages as proof of cover, etc.

Sometimes insurers use alternative ways to publish terms and conditions, for example by posting leaflets in shops, referring to websites or printing conditions on fertiliser bags.

The process for taking out a policy or for submitting claims has been explained to illiterate customers by using pictures or cartoons or by radio / television broadcasting.

92. Furthermore, to improve the quality and simplicity of disclosure in the inclusive insurance market, the supervisors may require insurers to use a standardised format for disclosure.[44] A standardised disclosure format also facilitates ease of comparison across products, particularly if disclosures follow a standard template and it is possible to easily find common features as a basis for product comparison. It may be even more compelling to use standardised disclosures or disclosure templates for compulsory for products that are bundled with other goods and services (e.g. credit life on taking out a loan) where disclosure practice is poor.

93. These standardised disclosure formats could take a principles-based approach on the type of information that should be disclosed to customers, an approach that specifies mandatory disclosures or a product disclosure template. A principles-based approach allows

[44] Guidance 19.5.6

for more flexibility and scope to adapt disclosure to the needs of customers over time. But loses some of the advantages of ensuring clarity and ease of comparison across products.

94. The standardised format can take the form of a “Key Information Document” or standardised disclosure template. [45] This document should summarise the product information and should be not more than one page. This summary must be clear, in a readable print size and format and may include:

- The name of the insurer?
- What the customer is covered for?
- What are the exclusions (if any)?
- How much is premiums and where must the customer pay the premium?
- What will happen if the customer does not pay the premium?
- When, where and how can the customer claim and what documents will be required?
- When and where can the customer complain? If consumers feel aggrieved, they should have access to adequate complaints handling and redress mechanisms that are accessible, independent and efficient. Therefore the summary should state both the insurer’s and – if existing - the Ombudsman’s contact details.

95. It may be relatively straight forward to set disclosure requirements for products that are standardised or have prescribed product features (see Section 5.1.2). Special consideration should be given to features that are at the discretion of the provider and may cause differences between products may cause confusion for customers.

**Observed response(s): Key Disclosures**

The proposed microinsurance regulatory framework for South Africa states that disclosures for microinsurance In addition, it should state the following six questions and the answers to each:

- What am I covered for?
- What are the exclusions? (if any)
- How much are my premiums and where do I pay them?
- What will happen if I do not pay my premium?
- When, where and how can I claim and what documents will be required?
- When and where can I complain? (state the microinsurer’s and the Ombudsman’s contact details)[46]

96. In the group decision model where insurance is offered to a large number of customers. Individual members should have access to the policy summary so that they are informed and aware of the features of the policy.

97. If the digital technology is used as a means of distribution, the appropriateness of that digital technology must be considered. The supervisor should ensure that the principles of transparency and disclosure applied to digital technology are equivalent to those applied to insurance activities distributed through traditional means. Before the product is introduced to the market, the supervisor may assess the appropriateness of the digital technology used and may request the insurer to demonstrate how information will be disclosed to customers.

[45] Paragraph 172 of the Application Paper on Approaches to Conduct of Business Supervision
[46] The South African microinsurance regulatory framework, National treasury policy document, 2011

98. Customers should also be informed of their legal rights and obligations relating to insurance contract. Lack of knowledge and understanding of legal rights and obligations can results in repudiation of claims resulting from non-disclosure of material information by customer. In the inclusive insurance market, supervisors may introduce easily understandable standardised questions that an insurer can ask the customer limiting the duty of disclosure on the customer to only these questions. Furthermore, in inclusive insurance markets, it might be necessary to require of insurers and intermediaries to properly identify themselves with a proper license.

**Observed response(s): Identification of Agents**

In Slovenia to obtain a license, the insurance agents need to pass an examination and to prove that their license has not been revoked in a period of past three years and that they meet some other conditions. The Slovenian supervisor has detected the practice that some persons tried to identify themselves vis-à-vis the customers only with certificate of passing the examination. Obviously these persons have not obtained a proper license (mostly because of not meeting other conditions) and were trying to persuade their clients that certificate of properly passing the examination is actually a certificate of the license.

99. On other rights relating to the insurance contract the supervisor can introduce one page standardised script that the insurer should read to the customer before the contract is concluded. This should include rights to cancel, rights to claim and rights to complain should the customer be aggrieved during the duration of the contract. Furthermore, if the law provides for cooling off period, customers must be informed of the right to a cooling-off period which runs for a certain number of days after conclusion of an agreement allowing the customer to cancel the agreement or contract.

100. Setting disclosure requirements that are appropriate to the needs of the inclusive insurance market can facilitate transparency in financial service delivery. As a result products and services will be used more, customers will benefit more, and inclusion in the formal financial sector will pose fewer risks for vulnerable, low-income people who have less experience with formal finance and lower levels of financial literacy and capability.[47]

101. It is important to protect consumers and support access to insurance and to be careful that disclosure requirements are not overly onerous and expensive to implement, thus resulting in 'protecting the customers out of the market'.

102. In addition to setting required product disclosure to ensure the fair treatment of consumers, standardised product disclosures have the additional advantage of making it easier to train sales agents on disclosure requirements for inclusive insurance products. Standardised disclosure information can be included in consumer education and awareness campaigns for inclusive insurance products.

### *5.2.3 Post-sale servicing and information*

103. Insurers are required to :

- service policies appropriately through to the point at which all obligations under the policy have been satisfied;
- disclose to the policyholder information on any contractual changes during the life of the contract; and
- disclose to the policyholder further relevant information depending on the type of insurance product.[48]

[47] Chien (2012)
[48] Standard 19.8; Guidance 19.8.1 onwards; See also Paragraphs 182-185 of the Application paper on Approaches to Conduct of Business Supervision

### *On-going servicing*

104. In an inclusive insurance market where many customers have limited knowledge of insurance products, it is important that customers are provided with adequate and appropriate on-going information to enable them to monitor whether the product or service continues to meet their needs and expectations and provide acceptable levels of service for post-sale transactions or enquiries.

105. The supervisor should therefore require that, if there is a material change of a provision, term or condition of an insurance product, or if any noteworthy event or transaction in respect of a product or service occurs, the insurer must communicate and provide full details of that change, event or transaction and its implication to a customer in a timely manner.

106. The insurer must ensure that channels of communication between the insurer and the policyholder are continuously accessible in case they have a query or need assistance relating to the product.

107. On-going servicing of policies for inclusive insurance involves a number of activities, including: policy renewal, notifications to policyholders (for example, on late premium payments), policy alterations and handling customer queries.

108. On-going servicing of inclusive insurance products should focus on the fair treatment of customers. It is important to insurers to have controls in place to ensure the quality of services provided for any outsourced servicing activities and monitor the effectiveness of on-going servicing activities (for example, through customer satisfaction assessments).

### *Claims handling processes*

109. Supervisors require insurers to handle claims efficiently and fairly, and have claims handling procedures that are simple, transparent and accessible.[49] Claims handling practices need to ensure the fair treatment of inclusive insurance customers and the timely handling of claims.[50] The insurers should have adequate policies and procedures to ensure effective claims handling and individuals involved in the claims handling process should be adequately trained in order to provide an effective service.[51]

110. Claims documentation and submissions processes should be reasonable taking the needs of previously excluded target customers into account, including:

- ease of claims submission, taking access to claims verification documents for the inclusive insurance market into account;
- accessibility in terms of location for submitting claims;
- keeping the time taken to make the claims payment after receipt of relevant documents minimal;
- communication on status of claim;
- keeping claims rejections minimal;
- accessibility of complaints and dispute mechanisms.

[49] Section 4.6 Application Paper on Approaches to Conduct of Business Supervision
[50] Standard 19.9
[51] Guidance 19.1.1 and 19.9.7

111. Intermediaries or other service providers may assist in the claims handling process. In these cases it the roles and responsibilities of intermediaries should be clear and there should be no compromise in the quality of the service offered to customers.[52]

### *Complaints handling processes*

112. Insurers should have robust complaints handling mechanisms.

**Observed response(s): On-going servicing:**

FINO Fintech, an Indian banking correspondent agency that works with agents selling insurance and other financial services, has developed a cost-effective mobile-based module to deliver on-going support through updates about product and policy changes and answers to frequently asked questions. FINO tracks whether agents have downloaded the updates and is able to follow up with those who do not. Once downloaded, these updates remain available to agents even when they do not have mobile reception, so they can access them while interacting with customers in the field.

MicroEnsure Philippines, a microinsurance broker, is using call centre platform to support policy holders on claims processing and on general inquiry about microinsurance.

**Observed response(s): Claims handling processes:**

Some insurers are using web-based systems that link partner branches to the insurer's system efficient claims processes and reducing time to verify the claims and make the claim payment, for example Malayan Insurance in the Philippines and Aseguradora Rural in Guatemala[53]

In Papua New Guinea, a mobile banking organisation offered insurance designed to pay claims quickly. Claims were accepted based entirely on the advice of the local banking agent confirming the validity of the claim. As all insurance clients had mobile money accounts, the funds were able to be credited and available within an hour or so of confirmation. Given sums insured were small and the banking agent had an ongoing interest in maintaining the relationship with the insurer, fraud risk was low.

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

Deadline for claims payout for microinsurance products was extended from 10 to 20 days in the revised microinsurance regulations for Peru (2016). Previously payout had to be done 10 days after the registering of a claim, which was considered to be too short by the industry, especially in cases where intermediaries are located in remote areas with poor access to mass media that facilitate communication between the parties involved.

**Observed response(s): Complaints handling processes:**

In India, the supervisor requires insurers to have their own Board approved complaints redress policies which, must be within the benchmarks laid down by the supervisor in the guidelines that it has prescribed for the industry. The turnaround times must be displayed prominently in all branches servicing prospects and policyholders. The supervisor requires policyholders to make the insurer grievance mechanism/channels as the first

[52] Guidance 19.9.6

[53] BUSINESS CASE FOR MICROINSURANCE PART II: FOLLOW-UP STUDY ON THE PROFITABILITY OF MICROINSURANCE. ILO's Microinsurance Innovation Facility, 2014

port of call for complaints i.e., before they decide to approach the Insurance Ombudsman and other dispute resolution settlement mechanisms.

In India, the supervisor has also set up a robust online integrated grievance redress mechanism called the 'Integrated Grievance Management System (IGMS)" which not only creates a central repository of insurance complaints of the entire industry but also provides a tool for the supervisor to monitor the disposal of complaints real time. All insurers are mandated to be linked to the IGMS on real time basis.

The Circular letter L 16 -2013 Guidelines for the Implementation of Alternative Dispute Resolution Mechanisms for Microinsurance for microinsurance by Commercial Companies issued by the National Insurance Commission of the Philippines describes the principles and procedures of claims-related dispute resolution mechanisms at least cost, accessible, practical, effective and timely.

# 6. Application guidance for supervision

## *6.1 Role of the supervisor at the introduction of a new product – methods and considerations for the preferred approach*

113. Jurisdictions that have assigned the responsibility for product oversight to a supervisor can basically adopt one of the following options: the principle-based system, file and use and prior-approval.[54] The choice for the optimal option differs based on various aspects that the jurisdiction needs to consider, including the level of vulnerability of the customer, the complexity of the product, the capabilities and resources of the supervisor and the impact on innovation. These aspects can result in different options for different product lines. As mentioned in section 2, prior approval of terms and premiums is more appropriate in situations, such as where the insurer is dealing with less financially-capable customers, where products are complex or insurance contracts that are mandatory by law such as automobile liability insurance or health insurance[55].

**Principle-based system**

114. The key feature of principle-based system is that the supervisor predominantly focusses on the internal processes of the insurer concerning product development, marketing and engagement with intermediaries without specifically having the authority to pre-approve new products or changes to existing products.

115. The supervisor needs to review if the insurer has adopted and is applying appropriate processes in product development, its monitoring, reviewing and its distribution. Indirectly, the supervisor also supervises the governance arrangement and the independence and functioning of key functions.[56] Although the principle-based approach is more common in developed insurance markets it may also be beneficial for the less developed ones. In a risk-based approach the ultimate responsibility for the products is clearly placed with the insurer. The main problem with principle based approach is that the supervisor may be burdensome for the supervisors to follow the processes tied to all products. It is therefore of utmost importance that the supervisor retains the powers to intervene even when the product has been available in the market for a while.

116. The main challenge for the supervisors is determining criteria against which the insurers' processes should be checked in order to be compliant with appropriate principles. In this respect the supervisor should adopt a risk based approach, taking into consideration the risk to the customer, or more specifically "…the scope of requirements for conduct of insurance business should reflect the customers, taking into account the nature of the customer and the type of insurance provided."[57] In practice, this would mean, that the supervisor will be in position, to adjust the criteria in the inclusive insurance environment for certain requirements due to the simplicity of the products (example from South Africa in respect of requirements for actuaries) and thus reduce the costs of the business model. On the other hand, the supervisor should pose supervisory requirements at a higher level taking into account, for example, lower financial literacy level of the customers or higher IT risks connected with digitalised distribution.

117. If the supervisor follows a more principles-based approach to new products in the market, the information that would have been reviewed as part of the product submission process can be investigated as part of the supervisor's on-going monitoring processes in on-site inspections. The supervisor can apply sampling techniques to check whether products are in compliance with applicable regulations.

[54] Guidance 19.3.2 – 19.3.4
[55] See Guidance 19.3.2
[56] Guidance 19.3.4
[57] Guidance 19.0.3

Under the principles-based regime the supervisor can assess the suitability and effectiveness of the insurer's approach, policies and controls for product development as part of the on-site inspection process by investigating the suitability of the:

- Robustness of the overall product development process;
- Skills and experience for persons responsible for different product development activities (for example pricing);
- Effectiveness of processes of involvement and sign-off of products by senior managers and the board.

A robust product development process will include the following steps:

- Identify the target market and assess the relevant risks the target market;
- Initial research: investigate demand for insurance cover, supply of products in the market, potential distribution channels and technical service providers for operational processes (for example premium collection);
- Product design and planning: design the product features and pricing, determine the distribution model (the intended distribution strategy and system of controls ensuring that insurance product is distributed to the identified target market in intended way), administration and operational processes, reinsurance cover, relevant partnerships for distribution and administration of policies;
- Implementation and roll out: build administration and operational systems, enter into partnerships agreements, enter into reinsurance arrangements, train distribution channels and develop marketing material, pilot test product;
- Monitoring: Monitor sales and costs and identify product risks. The insurer should monitor and regularly review the insurance products, taking into account any changes in the needs of target market and assess whether the product remains aligned with the interests of consumers and whether the envisaged distribution strategy remains appropriate.

**File and Use System**

118. When insurance products are not so complex and are subject to a market withdrawal by supervisors, a File & Use approach can be an alternative. This approach allows the registration of all insurance products in a jurisdiction, allows supervisors to focus on products which present bigger risk for policyholders and at the same time helps insurers with speed of new products to market.

119. In terms of control over insurance products, we can say that File & Use is an option between Product pre-approval and Principle-based system.

120. Under this approach, supervisors usually check the terms and conditions of insurance products and the actuarial note. Some jurisdictions with a more competitive market, like the US, may also check insurance rates.

121. With this method, insurers are allowed to offer products right after their filing or after they receive a quick analysis. In certain jurisdictions the supervisory response is expected in a certain time period (6 weeks in South Africa). Nevertheless, supervisors may request changes in the products at any time. Even after this time, the supervisor must have powers to intervene.

**Product pre-approval**

122. In the product approval approach the supervisor has the power to approve the contract provisions or pricing. In this approach the supervisor has the highest level of control in the product oversight. It seems to be the common supervision approach for jurisdictions

that are building inclusive insurance market, where Insurers might have limited technical skills or enforcement powers, distribution channels are new and often outside of insurance supervisor authority, and customers have low financial knowledge. In addition, a number of controls around the sale of products may not be present for inclusive insurance products (for example advice-based sales and management of conflict of interest at the sales stage). It is therefore important to ensure that some of these processes are managed through the design of the product and the arrangement with distribution partners and other service providers. This can be assessed at the product as part of the product approval process.

123. There are different types of pre-approval. Pre-approval can be applied to the terms and conditions, the actuarial note, or even to an insurance rates in a more competitive market. The pre-approval process can take a few days or many months to be concluded, depending on the product complexity and the way the process is conducted by the supervisor.

124. In general, the process of filing of products and approval or noting thereof or assignment of a unique product number etc., as the case may be, can be speeded up with the use of technology. Online methods of filing a product would ensure speed as well as transparency in terms of the time-frame and procedure involved in the approval or noting of the product etc. Online methods involving the capture of information in a systematic way also ensure creation of a central database that facilitates ensuring a uniform approach to products as well as generating information for queries and the required reports.

**Observed response(s): Product submission process**

In Brazil, the pre-approval approach is followed for microinsurance, on average, product approval is obtained in three days as long as the product operates with standardised coverage and exclusions with minimum document requirements as per the microinsurance regulation.

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

125. However, the product approval approach also has its challenges and can be complex. The first one is the scope of the approval. Does the approval cover only the product itself (i.e. terms and conditions and possibly pricing) or also other activities (such as identifying target market, envisaged distribution channels etc.)? Secondly, the supervisor will have to set proper criteria against which to review products. Such exercise may be fairly simple when reviewing if the product is compliant with binding provisions of law, but may become much more complex if the approval process includes pricing. Thirdly, the supervisor needs to have properly trained staff to properly review products. And, fourthly, the product oversight supervisory process must not end with the approval. The supervisor needs to monitor the product also after the initial approval.

126. However, it is important to keep in mind that a very strict control could have a negative impact on innovation, which is fundamental to improving new insurance segments. The approval process should balance the protection of customers against the benefits to customers of innovation and choice in insurance products.

127. However, a stricter control as part of a pilot test or "sandbox" may have as a purpose to foster innovation while maintaining an adequate level of consumer protecting. In this situation a controlled environment would be created to sell a limited number of products for a limited period for example to test the sustainability of the business, sometimes under lighter touch regulatory requirements. The supervisor would likely approve the product as part of the launch of the test or sandbox.[58]

The supervisor can review the materials submitted as part of the product submissions for new or altered by assessing the appropriateness for inclusive insurance customers of:

- Research into demand for the product and market competition;
- Product features in terms of mandatory product features, fair treatment of customers and the management of the insurers exposure to risk (for example anti-selection);
- Pricing of the product (financial viability and fair costing structures);
- Samples of advertising and promotion material;
- Pre-contractual information and sales supporting documents provided to intermediary by insurers, including policy summaries or key information documents, policy documents, verbal disclosure checklists etc.;
- Sales processes and training material for sales persons;
- Distribution model, distribution partners, management of conflicts of interest in the partnership models and controls in place to manage intermediaries;
- Remuneration model and management of conflicts of interest in the sales process;
- Premium collection, claims handling, policy renewal, queries and complaints processes and other on-going servicing of policies;
- List of other service providers and controls to manage relationships with service providers.

The supervisor can review certain aspects of the product development process in more detail as part of the on-site inspection process (for example the full demand study report or the full pricing model).

128. Jurisdictions vary widely in their approach to product oversight. Here are some examples:

*Country examples*

| Jurisdiction | Product Oversight Approach |
|---|---|
| Australia | **Principle based approach**. In relation to the adequacy, conduct and disclosure related to the product, it is the insurer's responsibility to meet ASIC's regulatory requirements when they issue an insurance product. |
| Brazil | Insurance companies upload their products through an electronic web system what allows products availability to all interested parts at SUSEP website.<br>For general insurance, File & Use is applied, meaning that products (terms and conditions + actuarial note) can be launched after SUSEP performs a quick analysis and releases the product registration number to the insurance company. SUSEP may request changes in the product at any time. In this case, the analysis of the terms and conditions mainly |

[58] See paragaphs 2.15 onwards of the Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets

| | |
|---|---|
| | checks the following requirements: target public, sum assured for each coverage, coverages wording, exclusions, deductibles and grace period applicable for each coverage, type of contract (individual or group policy), policy term and renewal conditions, premium payment conditions, distributions channels used to market the policy, documents required, maximum deadline for claims payment and beneficiary clause. Regarding the actuarial note the following items are checked: definition of the target public, coverages, the grace period applicable to each coverage, specification of rates and premiums, the statistics or parameters considered to define each rate, biometric tables information (when applicable), the criteria for rates revaluation, including formulas and periods; premium loads information (minimum and maximum percentages applicable); technical provisions specification. The Responsible Actuary must sign the actuarial note.<br><br>The pre-approval approach is adopted to more complex products as pension plans, annuities and life insurance with a saving component. The insurance companies may choose to operate either with a nonstandard product designed by the insurer or with a standard product provided by SUSEP. Most of these products are standard. In this case, the insurance company must send to SUSEP the products (plans) parameters that will vary by the type of the plan (pension plan, annuities) such as: interest rates, type of income (lifelong income, temporary income, lump sum payment etc.), biometric table, restatement index and so on. |
| China | Insurers must submit the policy terms and conditions and premium rates for types of insurance that are "of immediate interest to the public, types of insurance that are mandatory and newly-developed types of life insurance" to the CIRC for **pre-approval** . The policy terms and premiums of other products should be submitted to the CIRC for the record. (***File & Use).*** |
| European Union | E.U. supervisors apply a **Principle based** approach to product oversight; product pre-approval is not allowed in European Union law. |
| India | India has a mix of prior approval system and what is known as the Use and File system. Life insurance products need prior approval and so do retail health and retail non-life products. For life products both the wordings of the products as well as the pricing require the prior approval of the supervisor.<br><br>The commercial category of products under the non-life segment up to a Sum Insured of Rs.5 Crores too need prior approval. However, the rest of the commercial products in non-life as well as group products in health are governed by the Use and File system wherein the insurers need to obtain a Unique Identification Number and then launch the product –they do not need any specific approval. The Use and File system is also followed for all Government notified insurance schemes in India.<br><br>The supervisor may pick up, on sample basis, such products and examine them and has the right to question the design, pricing etc. of such products. Even for products that require prior approval, the Product Management Committee (consisting of the Appointed Actuary and various Key Management Personnel) has a defined role in terms of vetting the product. |

| | |
|---|---|
| Peru | Uses a file & use approach for microinsurance products that that guarantees registration within a maximum of 15 days was introduced in order to speed up the registration process for microinsurance products. |
| Philippines | **Approve all MI products**, just not a few standard products. |
| Ghana | Insurance products in Ghana can only be issued after the NIC has given **its Prior Approval** for the product.<br>Insurers apply for new product assessments by submitting a policy contract, an actuarial estimate and a written record of assessment indicating that the product meets the criteria of a microinsurance product (target market, price, affordability and accessibility of the product were assessed internally).<br>If the product no longer fulfils the microinsurance product criteria the National Insurance Commission may issue a written notice revoking the approval of the product. |
| Slovenia | In Slovenia, being a member of the EU, any prior approval of insurance products is not allowed. In approaching product oversight issues, Slovenian supervisors are at the time of writing this report in the process of implementing in day-to-day supervision EIOPA's Product Oversight and Governance Guidelines (POG Guidelines). As Slovenia has principle based approach to product oversight it is implementing POG guidelines in proportional way, taking into consideration the nature of the customer and the risk the product itself represent for the customer. Following are some of policies in implementing POG Guidelines for insurers in case of more vulnerable customers groups that may be applicable also in the context of inclusive insurance. The most important feature in approach to product governance is, that the principle of proportionality should be applied in a reverse manner when applying it to vulnerable class of customers. The supervisor would thus look if:<br>• The insurers management has used due care when approving a certain product and, especially, taking into consideration target market and its features.<br>• In identifying target market in case of vulnerable groups of customer, the insurer should also identify which are unsuitable classes of customers (negative identification of the market) and what should be proper procedures if the customer wishes to buy a product which is not suitable for her/himself.<br>• The insurer should establish proper internal controls for own and external sales channels to properly monitor that the product is sold in an appropriate manner. At least in Slovenian experience, special focus should be given to external sales channels, which are inherently more difficult to control.<br>Especially in products, designed for more vulnerable classes of customers, the insurer should put an emphasis on monitoring the product and, if detecting that the product does not behave as envisaged to the detriment of the customer (for example, materially low loss ratios than expected, unusually high complaint rates etc.) actively investigating the reasons and consequently aligning the product with the interests of customers. |

| | |
|---|---|
| South Africa | South Africa's microinsurance policy proposals[2] tightly control the parameters of product design permissible under a microinsurance license, in order to balance consumer protection and market growth imperatives. Product review will take place on **a File & Use** basis |
| USA | There is one, well-recognized regulatory standard in the U.S. governing rates; rates shall not be excessive, inadequate or unfairly discriminatory. While there are 56 jurisdictions with varying approaches, many jurisdictions may have similar approaches. There needs to be a recognition that the review of rates and products is complex and what is appropriate for one line of insurance/product and marketplace may not be appropriate for another line of insurance/product or marketplace. There can also be differences with commercial line products and personal line products. It is this flexibility that leads to appropriate products being made available to consumers and competitive markets. |

129. All things considered, a suitable regulatory approach to product oversight will depend on an adequate assessment of risks and mitigating factors of each jurisdiction. According to the examples mentioned above, emerging countries tend to adopt a pre-approval for more complex products and a file and use approach for the simple ones. On the other hand, jurisdictions with a more mature insurance industry usually applies a more principle-based approach.

## 6.2 Ongoing oversight

130. The supervisor takes 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.[59]

131. The supervisor is responsible for monitoring the fair treatment of customers in relation to inclusive insurance products. This involves monitoring whether products, approaches to distribution, claims and other operational processes are appropriate for low income, informally employed and other customer groups with little experience of insurance products.

132. The supervisor will monitor the governance processes and policies, implementation of procedures and outcomes of the activities of the insurer with respect to the development and on-going management of inclusive insurance products, by monitoring:

- **governance processes:** suitability of policies governing the product lifecycle, competence of staff responsible for product-related activities, reporting to and sign-off from senior executives and the board;
- **implementation of policies and procedures**: effectiveness of accountability and controls and monitoring of internal processes and reporting (particularly for outsourced activities) and monitoring of customer experience;
- **outcomes**: compliance with regulatory requirements, customer satisfaction with products and complaints, appropriate behaviour of intermediaries, value provided to customers, persistency and growth in business volumes and financial viability of products.

133. The supervisor will assess compliance with supervisory requirements and any risks posed to the fair treatment of consumers and the reputation of the industry.

134. There are a number of tools available to the supervisor to monitor the fair treatment of customers, including:

- Regular reporting requirements and off-site monitoring: analysis of reporting on business volumes, persistency, claims, complaints and financial performance of products against benchmarks or industry performance;
- On-site inspections: assessment of suitability of responsible persons and the insurer's processes and controls around product activities. On-site inspections can be used to verify and investigate information in the product submissions or regular reporting in more detail, as well as investigate any areas of breach of compliance, failure of controls, reasons for change in processes or other reasons for concern around the fair treatment of customer in product-related matters; and
- Other activities (for example, mystery shopping).

135. Corrective measures will be implemented, where necessary. The supervisor can also use monitoring activities to identify good business practices. This is particularly important for inclusive insurance markets where the markets are still developing. Examples of good business practice can form the basis for any guidelines on business practice issued by the supervisor for inclusive insurance.

136. Disclosure of certain ratios reflecting servicing parameters can promote transparency in the market which can be supported by publication by the supervisor or the industry itself. For example, claim settlement and rejection ratios and data relating to reasons for rejection could be good indicators of how transparent the product is or what is the claims policy of an

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[59] ICP 9, See also Paragraphs 143 onwards and 153-154 of the Application paper on Approaches to Conduct of Business Supervision

insurer. Similarly, turnaround times for disposal of claims reflect the efficiency of the insurer in servicing claims. It should be noted that these can be misinterpreted by the public if it does not have a proper understanding of their meaning.

In India, there are guidelines requiring insurers to specifically make certain public disclosures which apart from servicing ratios discussed above, also indicate complaints disposal ratios and related information. Apart from servicing parameters, the public disclosure requirements also include business performance including incurred claims ratios, paid claim ratios, combined ratios, outgos towards agents' commissions and other intermediary remuneration, expenses of management and so on.

The supervisor will monitor the activities of insurers, intermediaries and service providers and monitoring activities for product oversight focuses on the whole product life cycle in monitoring the fair treatment of the customers, including: the insurer's product development processes, sales and disclosures, on-going policy servicing, claims processes and product performance. The assessment of the product development design is covered in Section 6.1. This section follows the other phases of the product life cycle in turn.

**Product sales, promotion and sales disclosure**

137. Promotion materials, disclosures and sales practices should meet the principles of fairness, transparency and support informed decisions as well as comply with disclosure standards and formats. In addition insurers and intermediaries need to comply with any requirements relating to minimum or standardised disclosures relating to inclusive insurance products (see Section 5.2.2). Persons involved in the sale of inclusive insurance products need to be trained on the product features and sales processes for these products. Insurers will also need to have controls in place and monitor the activities of agents and intermediaries to ensure that good sales practices are followed.

138. The promotion materials, disclosures and sales practices of the insurer can be assessed through:

- Reporting and off-site analysis on persistency, agents and sales persons and complaints by customers related to sales practices;
- On-site inspection activities reviewing the training programme for agents and sales persons, governance processes, controls and monitoring activities for promotion, disclosures and sales practices;
- Other activities include mystery shopping, surveys of understanding of insurance concepts and general monitoring of information relating to inclusive insurance available in the public domain.

***On-site Inspections***

The supervisor may investigate the insurer's processes documents, code of conduct and controls and monitoring processes of sales practices and the activities of agents and sales persons.

Product promotion and disclosure material assessed for the product submission process under the product approval approach can also be investigated in an on-site inspection.

The effectiveness of the insurer's processes for reviewing advertising material as well as instances of corrections or withdrawal of promotion material or activities can be investigated further in on-site inspections.

The effectiveness of quality controls for disclosures and policy information and processes for reviewing the information provided to the customer can be assessed though on-site inspections. This may include a review of the processes that the insurer uses to ensure that disclosures are 'understandable' for the inclusive insurance market[60] and reasons for changes in disclosure materials and activities etc.

The supervisor can assess the suitability of training for agents and sales persons as part of the on-site inspection process. The content of the training programme and the credentials of persons conducting the training can be checked for suitability. The supervisor can also assess the controls around developing training content, selecting trainers and conducting training activities to determine whether suitable quality control measures are put in place. The staff of the supervisor can attend the training sessions and feedback assessments from persons attending the training can be assessed in on-site inspections to investigate the effectiveness of the training sessions. The supervisor may need to use an independent expert in training to conduct these activities.

The supervisor can investigate the insurer's processes documents, code of conduct and controls and monitoring processes of sales practices and the activities of agents and sales persons can be investigated as part of the on-site inspection process. For example, standard questionnaires for gathering information from customers and insurer processes for verifying that the required information is gathered from customers at the policy inception stage. Reasons for changes in the sales practices and the controls and monitoring relating to sales can be investigated in on-site inspections.

The supervisor can monitor the reasons for reported complaints as part of the on-site inspection process. This will allow the supervisor to identify investigate relating to advertising, misleading or overly pressurised sales practices, as well as claims related complaints (product misunderstandings may only become evident at the claims stage) But the supervisor may only be able to investigate.

***Reporting and off-site monitoring***

Certain information gathered from insurers and intermediaries as part of the regular reporting requirements to the supervisor can give an indication of the performance of the insurer or intermediary in terms of good sales practices. This information includes data on sales, persistency, intermediary remuneration, number and retention of agents and sales persons and complaints. This information can be assessed by the supervisor as part of the off-site analysis processes. Supervisors can develop benchmarks for performance in the area of sales practices for inclusive insurance as the market develops over time.

***Other methods of investigating customer experience***

The supervisor may review the promotion material for inclusive insurance products as part of on-going monitoring of the activities in the market. This monitoring applies to all media (television, radio, press, billboards, and on-line advertising) as well as street marketing activities, communication campaigns or events (application paper).

Mystery shopping is a useful tool for investigating:

- the implementation of the insurer's processes relating to sales practices;
- the effectiveness of the disclosures and sales practices in achieving standards of clear, fair, not-misleading and providing information useful to making a purchase decision;
- general experience of customers (for example, are customers treated with respect and dignity at the sales stage?).

Mystery shopping may be used to investigate the experience of the consumer throughout the sales process.

The supervisor may evaluate the customer experience of the sales practices of the insurer through surveys, focus groups and tests of[61] (for example, customer understanding of the

[60] Application Paper on the Approaches to Conduct of Business Supervision
[61] IAIS Application Paper on Approaches to Conduct of Business Supervision

information in the key disclosure document). This may form part of the wider financial education activities of the supervisor. The supervisor may need to engage independent experts in this area to conduct these activities.

The supervisor can also investigate the insurer's monitoring activities in this regard (for example, the findings customer satisfaction surveys conduct by the insurer) as part of an on-site inspection and gather and analyse information on complaints from consumer protection bodies, recourse mechanisms and social media.

Mystery shopping is important in microinsurance. Supervisors often have little idea what the problems on the ground are.

Waiting for complaints to arise for microinsurance contracts is not the right instrument e.g. in mobile insurance policyholders do not complain for policies of such small amounts.

In a mystery shopping study in Zambia, most shoppers were able to register for a digital financial services account without showing the necessary identification. These shoppers were able to bypass over-the-counter transaction limits. And most agents who quoted transaction fees to shoppers told shoppers the wrong amount. According to one shopper: "I was initially informed that the transfers attract zero charges, but I later incurred charges after the transfer was complete, and the agents were unable to explain this." Findings like these are critical for supervisors charged with monitoring markets for regulatory compliance and with identifying emerging risks relating to customers, experience.[62]

In Tanzania, with the support of donor funding, a research effort included interviews of clients regarding their experience with mobile insurance. This was further supplemented by targeted mystery shopping. The combination of the experience of clients and the validation of the same through mystery shopping allowed the supervisor to be sure that the results were of actual experiences and not a lack of understanding by clients. As a result, the insurance supervisor was able to intervene and encourage changes in insurer behaviour to address shortcomings.

**Post-sales servicing and information**

139. The supervisor can assess on-going servicing processes and the effectiveness of the service provided to customers through:

- Reporting and off-site analysis of complaints by customers related to on-going servicing;
- On-site inspection activities reviewing processes and training for product servicing, notifications to customers and the queries and complaints handling process of the insurer and controls and monitoring relating to product servicing;
- Other activities for example include customer satisfaction surveys.

***On-site Inspection***

On-going servicing processes assessed for the product submission process under the product approval approach can also be investigated in an on-site inspection.

The supervisor can also assess the appropriateness of the defined responsibilities for servicing of policies (including responsibilities of outsourced service providers) as part of the on-site inspection process.

The effectiveness of the insurer's on-going servicing activities as well as the controls and processes for monitoring of on-going servicing, including outsourced activities can be investigated further in on-site inspections. This may include investigating a sample of communications to policyholders for policy renewal or reminder to pay late premiums,

[62] CGAP study on mystery shopping in digital financial services 2016,

documentation on adherence to processes for handling queries (for example, average response time).

***Reporting and off-site analysis***

Persistency of data provided in the regular reporting to the supervisor by insurers (and possibly intermediaries) can give an indication of the performance of the insurer or intermediary in terms of on-going servicing of policies. This information can be assessed by the supervisor as part of the off-site analysis processes.

***Other methods of investigating customer experience***

Customer satisfaction assessments (for example surveys and focus groups) can be used to investigate the effectiveness of the on-going servicing activities of the insurer. The supervisor may review the results from any investigations conducted by the insurer or possibly independent experts conduct these monitoring activities.

Poor on-going servicing practices can be identified through complaints to the insurer, supervisor or consumer protection bodies.

**Claims processes**

140. Insurers will need to ensure that claims handling processes are appropriate for the inclusive business. The supervisor can assess the documentation relating the claims handling responsibilities and processes as well as the effectiveness of the implementation of these processes and insurer monitoring activities. This will also provide feedback on the product design (process) of the insurer. The claims handling processes of the insurer can be assessed through:

- Reporting and off-site analysis of claims payments, rejections and complaints relating to claims
- On-site inspection activities reviewing the implementation of the claims handing processes and insurer monitoring activities
- Other activities include monitoring of complaints and interviews of customers whether they were satisfied with the claims handling process. This could be done by an audit of the complaints register or using sample checks of claims files for example as part of a thematic on-site inspection.

***On-site Inspection***

Claims handling processes assessed for the product submission process under the product approval approach can also be investigated in an on-site inspection.

The appropriateness of defined responsibilities for claims handling (particularly for outsourced claims handling) can also be investigated as part of the on-site inspection process.

The effectiveness of the implementation of claims handling processes as monitoring of claims handling (including outsourced activities) can be investigated in on-site inspections. This may include investigating a sample of claims records to assess the reasonability of time to payment and the quality of the communication to the customer during the claims process, the competence of claims handling staff and adherence to service standards for outsourced service providers.

***Reporting and off-site monitoring***

Information amounts for outstanding claims, time to claim settlement, rejected claims, disputes claims and complaints relating to claims can be provided in the regular reporting submissions to the supervisor. An analysis of this information as part of the off-site analysis process can give an indication of the performance of the insurer or intermediary in terms of claims handling. Traditionally, off-site monitoring is usually on a product category basis but it may be useful to gather information on inclusive insurance on a product basis

***Other methods of investigating customer experience***

Interviews can be conducted to assess customers' satisfaction with the claims process. The supervisor can also review the results from any investigations conducted by the insurer.

Unfair treatment of customers at the claims stage can be identified through complaints to the insurer, supervisor or consumer protection bodies.

**On-going performance of the product**

141. It is important to monitor the on-going performance of the product against the projected performance both in terms of client value and financial viability of the product. This can be assessed through:

- Reporting and off-site analysis of product performance: claims and expense ratios, claim rejections, persistency and complaints;
- On-site inspection activities reviewing the implementation of performance monitoring;
- Other activities include monitoring of complaints and independent review of the performance of the product.

142. The supervisory processes investigating product development, on-going servicing and claims handling are likely to highlight any concerns relating to fair terms and conditions for inclusive insurance products.

***On-site inspections***

The suitability of the persons responsible for monitoring product performance as well the documented monitoring processes (including internal benchmarks set by the insurer) and reporting protocols to senior managers of the insurer can be investigated as part of the on-site inspection process.

The effectiveness of the implementation of product performance monitoring can also be investigated in on-site inspections. This may include investigating internal performance monitoring reports and actions taken by the insurer to mitigate areas of poor performance.

The quality of the data stored in the insurer's information management system, the performance of the product in comparison to initial projections made in the product design stage as well the reasons explaining the underlying performance of a particular product can be investigated in on-site inspections.

***Reporting and off-site analysis***

Information amounts for claims and expense ratios, rejected claims, disputes claims and complaints may be provided as part of the regular reporting submissions. An analysis of this information in comparison to benchmark indicators off-site analysis process can give an indication of areas of concern in terms of client value, low awareness of cover and fair treatment of customers. But this analysis is usually constrained by the limited level of granularity of the information provided as part of regular reporting (for example information may be provided on a business line rather than an individual product level).

One of the challenges of using benchmarks for claims ratios for inclusive insurance is that claims patterns vary from product to product (for example, catastrophic insurance has low frequency/high severity claims pattern).

The Philippines has developed reporting templates showing various ratios relating financial and ongoing service performance indicators and has published benchmarks for the supervision of inclusive insurance business. Ratios for the efficiency of microinsurance products include: underwriting cost ratio, management expense ratio, claims cost ratio, time to pay claims ratio. Ratios for measuring the understanding of products by customers includes the renewal ratio and claim rejection ratio. A scoring system based on the insurer ratio relative to the benchmark is used to rate the efficiency and client understanding of the product.

The objective of monitoring client value is set out in the SADC principles of harmonisation of microinsurance regulations)

***Other methods of investigating customer experience***

Perceptions of poor client value and unfair treatment of customers can be identified through complaints to the insurer, supervisor or consumer protection bodies.

Financial soundness concerns can be identified through complaints of unpaid claims to the insurer, supervisor or consumer protection bodies. Although the supervisor should put mechanisms in place such that financial soundness issues are identified earlier than this.

In India, there are off-site and on-site mechanisms through which the regulator monitors performance of insurers in areas such as micro-insurance, covers for rural and certain identified social sectors ( with a view to increase financial inclusion amongst the vulnerable sections, the supervisor has laid down certain minimum obligation in terms of premium, number of lives to be covered etc.).

143. Overall, regardless of the product or process being investigated, the supervisor needs to tailor its activities to the risk of poor treatment of customers and to the reputation of the market given the resources available to the supervisor. The supervisor should not burden the insurance industry and itself by gathering, analysing and investigating information that is not likely to provide useful insights into risks relating to the fair treatment of customers. But the supervisor should still be responsive to information from many sources indicating unfair treatment of customers. The supervision activities of the insurance supervisor need to be relevant and nimble. The supervisor needs to be able to identify areas of concern around fair treatment of customers and implement appropriate interventions in a timely fashion. Although inclusive insurance products may be more simple that conventional insurance products distribution models, involvement of a range of service providers and the lack of prior experience with insurance of targeted customers means that the supervisor may need to develop a tailored approach to the supervision of products inclusive insurance business.

## 6.3 Supervisory measures / intervention

144. The nature of the supervisor enforcement powers influence the type of oversight product approach adopted by a jurisdiction. Although an enforcement system comprises a wide range of measures that supervisors can take, depending on the country legal framework, some remedial actions may take a considerable time to be applied. For instance, in Brazil, in some cases, an insurance company that receives a fine can appeal to SUSEP and to a Council of appeals, since a company has the right to an ample defence according to the Brazilian legal framework. In these circumstances, a file and use or a pre-approval approach will be more effective because they allow a prompt action by the supervisors such as withdrawal the product from the market in case of non-compliance with the product approved by the supervisor.

145. A general overview of measures / actions by the supervisor is included in the table below.

| | Preventative | Corrective | Sanctions |
|---|---|---|---|
| Prior Approval | Refuse approval | Injunction or order to revise a product if a different product is launched than has been approved | Sanction if a product is launched without approval |
| File and Use | Injunction between filing and launching of a product | Injunction or order to revise a product if a different product is launched than filed | Sanction if a product is launched without approval |
| Principle-based | Not possible | Injunction or order to revise a product if the product is not compliant with laws and regulations | Sanction if the product is not compliant with laws and regulations |

146. A supervisor could establish an Enforcement Policy wherein its broad principles and approach are reflected. An Enforcement Policy could reflect the objectives or goals of enforcement, the process and procedure generally followed and expectations the supervisor has of the regulated entities in terms of corrective action. The goal is to protect the interests of the policyholders while ensuring that the industry remains healthy to be able to protect the policyholders.

147. The enforcement policy of the supervisor should encourage effective use of compliance systems.

148. The policy must cover broad compliance expectations. When it comes to enforcement, it would be advisable to not only chalk out priorities based on the impact on policyholders at large but also ensure that enforcement action is commensurate with the gravity involved in non-compliance or violation as also its repetitiveness. Prioritisation should happen based on whether or not there is significant public interest or concern involved and whether the conduct has resulted in substantial policyholder detriment. Here again, impact on individuals and small business must take priority over others. Conduct detrimentally affecting the disadvantaged and vulnerable policyholder groups need greater attention.

149. The tools used for enforcement are also important. It may range from education, advisory and persuasion to strict regulatory actions involving penalty and/or others such as

suspension of a part or whole of the business etc. There could also be other tools such as administrative resolutions or suggesting certain voluntary industry self-regulatory schemes.

150. When it comes to implementation, an analysis of the market issue involved is essential—is it an existing or previously existing market issue or is it something new? If it is the latter, what has triggered it?

151. Pro-active outreach activities and recognition and publishing of best practices followed by regulated entities would go a long way in improving compliance and help prevent avoidable enforcement actions. Outreach activities may range from advisories through various forums including website, press releases, multi-media awareness programmes, workshops and other industry forums etc. The purpose should be to promote compliance.

**Observed response(s): Intervention**

The following enforcement/regulatory actions can be taken against any person who contravenes legislation administered by the regulator in South Africa:

- Enforcement Committee adjudicates on all alleged contraventions of legislation and it may impose penalties, compensation orders and cost orders. Such orders are enforceable as if it was a judgment of the High Court;
- The regulator can under certain circumstances prohibit an insurer from carrying on business if the insurer has contravened or failed to comply with a material provision of the insurance legislation;
- The regulator can suspend or withdraw the licence of an intermediary that contravenes the relevant legislation;
- The regulator is also empowered by legislation to "name and shame" in public any person deemed to have contravened legislation;
- The regulator can also refer cases of contraventions to prosecuting the authorities, e.g. South African Police Service and National Prosecuting Authority.

In India, there is a separate department in the regulatory set-up, the "Enforcement Department' that looks into all violations/non-compliances that are noticed during on-site inspections. The Enforcement Department ensures a broad uniformity in approach to enforcement actions. Enforcement actions may range from a simple caution or warning to penalty to remedial action to benefit the policyholder/s involved. Punitive action could even mean suspension of business or even cancellation of registration if it is so warranted.

Remedial action for the benefit of the policyholder/s would depend upon the impact of the non-compliance or violation and depending upon the case it would also need to be decided as to whether only the immediately impacted policyholder needs attention or it would require a class action. For example if a refund is due to a policyholder because of faulty design of the product, would it involve all policyholders affected by it to receive a refund etc.

Where a regulated entity wants to appeal against the action of the supervisor, it may approach the Securities Appellate Tribunal (SAT) which is an appellate authority for certain matters as provided for in the law. The SAT as an appellate platform for insurance related matters is a result of the recent amendment to the Insurance Act, 1938 in India.

152. Publishing details of enforcement action taken is also necessary to deter others from committing similar violations.

153. The capture of data relating to non-compliance/violation and analysis thereof would help the supervisor go a long way in determining whether the framework involved needs to be modified in any manner.

154. Apart from enforcement action on the regulated entity, it is important that the interests of the affected policyholders are protected by way of remedial action to be taken by the concerned regulated entity. Remedial action is an important element of enforcement. Where class action is required, it must be taken. Where contracts are to be rectified, they should be rectified and remedy due offered. For example, if there is a case of premium higher than that approved under the prior approval system charged, the insurer must make good the excess premium charged to the policyholders involved. Remedial action would be independent of other enforcement action that the supervisor may take.

155. Appeal mechanisms need to be provided for within the regulatory or legal framework as well as in the form of alternative dispute resolution mechanisms so that the regulated entities have the option to appeal.

156. Apart from remedial action from the policyholder point of view, punitive action as considered appropriate would need to be given to the regulated entity, depending on the gravity of non-compliance or violation. This could vary from a financial fine to a simple advisory or caution to exemplary punishment such as suspension of a particular sub-segment or segment of business or all business for a certain period of time.

157. Regulatory action does not stop with punitive action; it ought to be ensured that the regulated entity makes appropriate rectification in the systems so that such instances do not occur in the future.

# 7. Conclusions / summary

158. This Application Paper has been developed to provide guidance to inform supervisors, policymakers and market participants of ways to implement and apply the ICPs relevant to product oversight in inclusive insurance. The ICPs have as an important objective to protect the interests of customers. To that end the desired outcomes of the relevant ICPs need to be achieved. Based on the proportionality principle, the regulation and supervision of jurisdictions should be tailored to the specific conditions and characteristics of the jurisdiction allowing solutions that are adequate to achieve these outcomes without becoming excessive. This will assist in avoiding unnecessary barriers for market development in regulation and supervision and in promoting access to insurance products by customers.

159. Product oversight is only one element in the supervisory domain and in the protection of consumers. It has been identified as an important area in which guidance can be provided to balance in a proportionate way consumer protection with market development objectives. While the typical inclusive insurance customer often possesses adequate coping skills, it is important to recognise the vulnerability of the typical inclusive insurance customer with low or no education, an irregular and low income, particular needs for protection, typical and sometimes remote living conditions and no experience with or a negative perception of insurance. This calls for the development of suitable and affordable products, which may be complemented by stricter supervisory scrutiny and monitoring.

160. In respect of the requirements for insurers, the ICPs provide various provisions for treating customers fairly in various stages of the insurance product lifecycle; product development / design, sales process and post-sale servicing.

Treating Customers Fairly (TCF) is an outcomes based regulatory and supervisory approach designed to ensure that specific, clearly articulated fairness outcomes for financial services consumers are delivered by regulated financial firms. Firms are expected to demonstrate that they deliver the following 6 TCF Outcomes to their customers throughout the product life cycle, from product design and promotion, through advice and servicing, to complaints and claims handling – and throughout the product value chain:

- Customers can be confident they are dealing with firms where TCF is central to the corporate culture
- Products & services marketed and sold in the retail market are designed to meet the needs of identified customer groups and are targeted accordingly
- Customers are provided with clear information and kept appropriately informed before, during and after point of sale
- Where advice is given, it is suitable and takes account of customer circumstances
- Products perform as firms have led customers to expect, and service is of an acceptable standard and as they have been led to expect
- Customers do not face unreasonable post-sale barriers imposed by firms to change product, switch providers, submit a claim or make a complaint.

161. In respect of a product oversight mandate of a supervisor, there are three main approaches: the principle-based system, file and use and prior-approval. There may be different approaches depending on considerations like the financial capability of the customer, the complexity of the product or the mandatory nature of the insurance contract. This Application Paper intends to provide considerations that should assist in considering the most proportionate approach in a jurisdiction.

# Annex 1 – IAIS Supervisory and Supporting Papers in respect of Inclusive Insurance

### 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.

### Issues 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 the 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.

### 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.

### Application Paper on the Regulation and Supervision of Mutuals, Cooperatives and Community-based Organisations in increasing access to Insurance Markets (2017)

The objective of this paper to provide application guidance on the way the ICPs could be applied in a proportionate manner recognising the specific features of Mutuals, Cooperatives and Community-based Organisations, which should contribute to removing unnecessary barriers by disproportionate regulation and supervision, while protecting policyholders. In addition, it intends to raise awareness of policymakers, regulators and supervisors of the role these types of organisations could play in enhancing access to insurance.

# Annex 2 – Bibliography and References


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Issues Paper on Conduct of Business in Inclusive Insurance, IAIS 2015

### Section 6.2 Ongoing Oversight

http://www.ilo.org/public/english/employment/mifacility/download/mpaper12_clientvalue.pdf

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Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets, IAIS, 2012

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