

## Compiled Comments on *Consultation on the Draft Application Paper on Product Oversight in Inclusive Insurance*

30-Jun-17 to 31-Jul-17

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Organisation	Jurisdiction	Confidential	Answer	Resolution of comments
<b>1 - Q1 General Comment on the draft paper</b>				
1. ACB Consulting, Actuarial Consulting firm, Lomé (Togo)	TOGO	No	<p>This is an excellent paper providing extensive input in various aspects related to product oversight. However, i wonder why this paper should not also apply to every retail insurance, in developing and developed countries.</p> <p>What is missing however are clear boundaries on ONE important KPI namely the loss ratio. Why? these products should give a good value to the customers. A clear indication, for example loss ratio may not be less than 50%, may be very useful in developing countries to protect the consumer and guide the regulator during the approval process.</p> <p>I refer to the publication 'Mobile Insurance and risk framework in Ghana, published by GIZ for NIC which provides page 50 boundaries based on market study (paid loss ratio = 50 to 70"% of net premium for good value and sustainable products).</p> <p>See footnote for the publication 'Mobile Insurance and risk framework in Ghana, published by GIZ.<sup>1</sup></p>	<p>This is clarified in paragraph 4 of the paper.</p> <p>There was a clear steer in the ExCo meeting in June not to provide a rigid threshold in paragraph 58 in respect of the loss ratio. Therefore disagree.</p>
2. PCI	United States	No	<p>PCI represents nearly 1000 insurers and reinsurers that operate around the world. We appreciate the opportunity to comment. However, considering the importance of the subject of this paper, the broad scope of "inclusive insurance" and the paper's extensive discussion of potentially intrusive supervisory guidance, PCI requests more opportunity for dialogue before this application paper is finalized. This is especially important considering the statement in Paragraph 4: "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</p>	<p>The IAIS does not see particular grounds to extend the dialogue with stakeholders concerning the substance of this paper beyond the public consultation in accordance with the IAIS Stakeholder Engagement Policy.</p> <p>Nor does the IAIS consider a need to adopt the OECD's Policy Framework for Effective and Efficient Financial Regulation<sup>2</sup>, which goes beyond the remit of the paper.</p>

<sup>1</sup> [https://a2ii.org/sites/default/files/reports/2015\\_mobile\\_insurance\\_risk\\_assessment\\_ghana.pdf](https://a2ii.org/sites/default/files/reports/2015_mobile_insurance_risk_assessment_ghana.pdf)

<sup>2</sup> <https://www.oecd.org/finance/financial-markets/44362818.pdf>

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			<p>insurance space.”</p> <p>We would like to work with supervisors to grow a financially strong, innovative and competitive market for inclusive insurance. But overall, the application paper suggests an intense and subjective supervisory approach that might not encourage the offering of inclusive insurance, without some additional legal protections. For example, in prior approval states in the U.S. there are “deemer” provisions that assist in preventing unreasonable delays by providing deadlines for supervisory action. Insurers have access to the courts to challenge inappropriate supervisory actions that are “arbitrary, capricious or an abuse of discretion”. There are protections to assure transparent regulatory procedures including “notice and comment” rulemaking. And the standard for rate review assures risk based pricing. These are jurisdictional specific examples, but we provide them to show the importance of regulatory balance to achieve successful outcomes for supervisors, companies and consumers. Finally, we recommend the IAIS adopt here and elsewhere the OECD’s Policy Framework for Effective and Efficient Financial Regulation, which is an internationally endorsed example of this critically important regulatory balance.</p>	
<b>7 - Q7 Comment on Paragraph 4</b>				
3. PCI	United States	No	As stated above, the last sentence should be deleted and the global community of insurers should be given additional opportunities to dialogue with the supervisors before the application paper is finalized.	The language used “ ... <i>some of the considerations and suggested approaches could be of interest outside the inclusive insurance space.</i> ” is merely an encouragement to take note of the paper in a broader circle without imposing expectations on its implementation outside the inclusive insurance space.
<b>11 - Q11 General comment on Section 2</b>				
4. PCI	United States	No	[blanc comment]	-
<b>15 - Q15 Comment on Paragraph 11</b>				

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5. ACB Consulting, Actuarial Consulting firm, Lomé (Togo)	TOGO	No	'...but distribution mechanisms may introduce added complexity and EXTRA (or INCREASED) COSTS...': Indeed: using mobile operators may increase the cost due to sophisticated technology.	Agreed
6. PCI	United States	No	These paragraphs are critically important, should be maintained, and should be highlighted more due to the many paragraphs of the application paper that advocate more intensive supervision.	Noted. The wording is left unchanged as it was considered adequately balanced. Disagree that the other parts of the paper call for more intensive supervision. The aim is to come to and explain possible tailored solutions based on a proportionate implementation and application of the relevant Principles Statements and Standards of the ICPs. This does not necessarily mean more intensive supervision.
<b>17 - Q17 Comment on Paragraph 13</b>				
7. PCI	United States	No	These paragraphs are critically important, should be maintained, and should be highlighted more due to the many paragraphs of the application paper that advocate more intensive supervision.	See resolution of comment 6.
<b>46 - Q46 Comment on Paragraph 38</b>				
8. PCI	United States	No	The following words between the parenthesis in the first sentence should be deleted: "i.e. the portion of premium is allocated to expenses and profits should not be excessive compared to the portion allocated to claims". Insurers should take into account many factors in pricing so it is not appropriate to uniformly urge a specific pricing system in supervision, regardless of either inclusive insurance or other insurance. Also, what is "excessive" is not clear.	It is not intended to provide a limited list of factors to be considered as part of pricing. The wording has been revised to better reflect the intention.
<b>62 - Q62 Comment on Paragraph 54</b>				
9. ACB Consulting, Actuarial Consulting firm, Lomé (Togo)	TOGO	No	'.....create perverse incentives to be considered in setting maximum premium rates or the prescribed assumption to be used in calculating insurance premiums such as for example maximum commission rates...': indeed, if maximum commission rates are defined, then intermediaries, TPA, MNOs etc will find new creative ways to be remunerated in a	See resolution to comment 1. The text does not suggest a commission level.

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			"different" manner'. It is better to set minimum loss ratios, such as for example, loss ratio may not be lower than 50% and leave the insurer decide how to distribute the remaining part between insurer and all parties intervening in the value chain.	
<b>66 - Q66 Comment on Paragraph 58</b>				
10. ACB Consulting, Actuarial Consulting firm, Lomé (Togo)	TOGO	No	It is important for developing countries to orient the regulator during the approval process and give clear boundaries for loss ratio. I refer to general comment on this paper. Based on my long experience in Ghana (since 2010) and the CIMA region (since 1994) and aiming to protect the vulnerable consumer, I fully support the proposal from ACPR to add a new paragraph as formulated by ACPR: 'Inclusive insurance products are general high frequency, low severity claim products, where accordingly the risk margin does not need to overly high. It is important that in average, the policyholders get back a fair part of the premium they have paid. Unless justified by particular circumstances, the expected claim ratio should not be lower than 50%.'	See comments 1 and 9.
<b>69 - Q69 Comment on Paragraph 60</b>				
11. PCI	United States	No	In this paragraph and throughout the paper, "fair treatment of customers" is referenced and is too subjective. "Fair treatment" is not defined and should not be defined so as to go beyond the treatment required under applicable jurisdictional law for Boards, senior management or any other parts of an insurer.	Explanatory language is added in paragraph 11 and subsequent box (where it is used the first time) For the purpose of IAIS papers, fair treatment of customers should be applied as described in the ICPs.
<b>70 - Q70 Comment on Paragraph 61</b>				
12. PCI	United States	No	The paragraph states that the "ultimate responsibility" for developing, monitoring and distributing inclusive insurance products lies with the Board and senior management. In some jurisdictions, the responsibility may be placed on one or the other, and that should be recognized in the paper.	See Guidance 7.1.1 (" <i>The Board is responsible for providing the overall strategy and direction for the insurer and overseeing its proper overall management, while leaving the day-to-day management of the insurer to Senior Management</i> "). Since the draft paper speaks of "ultimate responsibility" the words "and senior management" have been deleted.
<b>80 - Q80 Comment on Paragraph 71</b>				

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13. ACB Consulting, Actuarial Consulting firm, Lomé (Togo)	TOGO	No	Special regard should be given to Guidance 20.12.14 (in life business or LONG TERM business, quantitative information on CREDITED INTEREST rates and on minimum participation features....) Pursuant to ICP 20.6.....the loss (claim) ratio for SHORT TERM Business (instead of non-life because for example credit life and funeral life are offered by life insurers and loss ratios are also applicable on those products) and the expenses ratio (for both life and non-life insurers OR for short term and long term business).	This comment seems to relate to paragraph 80. See comments under number 89.
14. PCI	United States	No	These paragraphs state that insurers are “ultimately responsible” for acts of third parties. This language needs to be modified, for example, if the third party commits fraud or some other illegal action unknown or unknowable to the Board and senior management.	According to Guidance 8.8.2 The Board and Senior Management remain responsible in respect of functions or activities that are outsourced. See paragraph 69 last bullet for revised wording.
<b>81 - Q81 Comment on Paragraph 72</b>				
15. PCI	United States	No	These paragraphs state that insurers are “ultimately responsible” for acts of third parties. This language needs to be modified, for example, if the third party commits fraud or some other illegal action unknown or unknowable to the Board and senior management.	See comment 14.
<b>89 - Q89 Comment on Paragraph 80</b>				
16. The Life Insurance Association of Japan	Japan	No	As described below, the last sentence should be amended as follows "Pursuant to ICP 20.6, the supervisor may disclose, or require the insurer to disclose, the loss (claim) ratio and the expense ratio (for non-life insurers).  ·Although the word "may" is used in ICP 20.6.8 corresponding to the above description, "should" is used in the draft of the application paper.  ·In ICP 20.6.8, it is stated only non-life insurers, but the statements add life insurers.	Agreed

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17. PCI	United States	No	The last sentence should be amended to read as follows: "Pursuant to ICP 20.6, the supervisor may disclose, or require the insurer to disclose, the loss (claim) ratio and the expense ratio for non-life insurers." This change is requested because the scope of ICP 20.6.8 applies only to non-life insurers, but the scope of this paragraph also includes life insurers.	Agreed. See comment 16.
<b>90 - Q90 Comment on Paragraph 81</b>				
18. PCI	United States	No	It will be important to mention that there are legal limitations on the ability to regulate advertising in some jurisdictions. For example, advertising in the U.S. is constitutionally protected free speech.	Adding a comment on legal limitations is not considered necessary for the purpose of this paper. No limitation is being suggested in the paper.
<b>122 - Q122 Comment on Paragraph 113</b>				
19. PCI	United States	No	There is a critical need for prominent mention of due process for insurers and consumers, the right to judicial review and transparently issued regulatory and supervisory standards. Otherwise the highly intrusive and subjective standards set forth in the document could be misunderstood and/or misapplied with negative consequences for markets and consumers. There also needs to be mentioned the importance of balancing consumer protection with solvency and competition, as both are also elements of consumer protection.	Issues such as due process, judicial review and transparency are not specific to product oversight and therefore left outside this paper. The final comment also goes beyond the scope of the paper.
<b>137 - Q137 Comment on Paragraph 126</b>				
20. PCI	United States	No	This paragraph should be maintained. Time limits for supervisory action are an important element of an efficient and effective supervisory system.	Noted
<b>138 - Q138 Comment on Paragraph 127</b>				
21. PCI	United States	No	In the third bullet, "fair" should be replaced with "risk based". One of the strengths of the insurance system during the recent financial crisis was that its pricing was risk based. Risk based pricing encourages investment of capital and competition which are also aspects of consumer value and protection.	Fair costing seems to refer to overpricing at the expense of the customer. The text has been clarified.

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<b>Comment on Paragraph 128</b>				
NAIC	United States		<p>For the reference to the U.S. on page 39, please find below slightly revised wording to use which helps the text read a bit cleaner:</p> <p>There is one general, well-recognized regulatory standard in the U.S. governing rates – rates shall not be excessive, inadequate or unfairly discriminatory. While based on this general standard, the details of the approaches used across the 56 different jurisdictions within the U.S. may vary in order to best suit their individual markets. 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.</p>	Agreed
<b>154 - Q154 Comment on Paragraph 142</b>				
22. PCI	United States	No	As we have previously commented on suitability of persons, we believe that the determination of competence is solely a matter of the insurer and the market, unless licensure is required for a particular position.	Disagree. This view is not supported by ICP 5 on Suitability of Persons (See Standard 5.2).
<b>155 - Q155 Comment on Paragraph 143</b>				
23. PCI	United States	No	We are in general agreement with this paragraph and request that it be retained. However, we remain concerned about the very subjective nature of the term “fair treatment” and continue to believe that supervisors should only require that the standard of the treatment accorded to consumers be as required by law. Of course, companies may wish to exceed that minimum.	See comment 11
<b>159 - Q159 Comment on Paragraph 147</b>				



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24. PCI	United States	No	We request the addition of this language: "Enforcement policies should also be proportional and should increase enforcement in cases where there is intent to violate the law or a pattern or practice, not several inadvertent errors."	Paragraph 156 (new) already states: " <i>enforcement action is commensurate with the gravity involved in non-compliance or violation as also its repetitiveness</i> ". Disagree with excluding "several inadvertent errors" as these may point at a structural problem in operations (policies and processes).
<b>168 - Q168 Comment on Paragraph 155</b>				
25. PCI	United States	No	This is a very important paragraph and should be retained and highlighted.	See comment 19. Paragraph will be deleted.
<b>171 - Q171 Comment on Paragraph 158</b>				
26. PCI	United States	No	As stated earlier under the general comments, the paper and its conclusion could lead to unintended negative consequences because of its heavy focus on intense and subjective regulation and supervision without an equal focus on legal protections for companies and how supervisors can best support competition and growth of a private market. The paper seems to imply that consumer protection is best achieved through limits on companies rather than on policies that encourage competition and innovation. A more balanced approach, with the changes we suggest, would actually encourage the offering of more inclusive insurance, a goal we share with supervisors and consumers.	Disagree that the paper focusses on intense and subjective regulations. The aim is to come to tailored solutions based on a proportionate implementation and application of the relevant Principles Statements and Standards of the ICPs. This guidance is more likely to remove subjectivity across the membership.