



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

**APPLICATION PAPER
ON PRODUCT OVERSIGHT
IN INCLUSIVE INSURANCE**

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, 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 is also 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.

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Application Papers provide additional material related to one or more Insurance Core Principles (ICPs), The Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) or the Global Systemically Important Insurers (G-SII) policy measures, including actual examples or case studies which help with the practical application of supervisory material. Application Papers can be used in circumstances where the practical application of principles and standards may vary or where their interpretation and implementation may pose challenges. Application Papers provide further advice, illustrations, recommendations and examples of good practice to supervisors on how supervisory material may be implemented.

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List of acronyms

A2ii	Access to Insurance Initiative
ASIC	Australian Securities and Investments Commission
CGAP	Consultative Group to Assist the Poor
CIRC	Chinese Insurance Regulatory Commission
FSB	Financial Services Board
IAIS	International Association of Insurance Supervisors
ICP	Insurance Core Principle
IRDAI	Insurance Regulatory and Development Authority of India
OECD	Organisation for Economic Cooperation and Development
SADC	Southern African Development Community
SUSEP	Superintendência de Seguros Privados (Brazil)
TCF	Treating Customers Fairly

1. Introduction

1. The IAIS, through the ICPs,¹ provides a globally accepted framework for the supervision of the insurance² sector. The ICPs assist in the promotion of 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 of global financial stability.

2. Enhanced access to insurance services helps to reduce poverty, improve social and economic development and support major public policy objectives; namely improving health conditions for the population, dealing with the effects of climate change and food security. Within emerging markets and developing economies, insurance supervisors are increasingly looking for an appropriate balance between regulation, enhancing access to insurance services and protecting policyholders.

3. Since 2006, the IAIS has developed an “Access agenda” which has been used to help support supervisors with these challenges. During the past few years the Access agenda has been developed by a number of groups and organisations such as the Access to Insurance Initiative (A2ii). The Supervisory and Supporting material which the IAIS has adopted in order to promote access to insurance and inclusive insurance can be found in Annex 1.

About this Application Paper

4. This Application Paper provides guidance to supervisors, regulators and policymakers when considering, designing and implementing regulations and supervisory practices on product oversight in inclusive insurance markets. Whilst the primary focus of this Application Paper is inclusive insurance markets, some of the considerations and suggested approaches could be of interest to other insurance areas. 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.

5. This Application Paper builds on the Issues Paper on Conduct of Business in Inclusive Insurance (Issues Paper), dated 2015, which broadly dealt with the fair treatment of customers in inclusive insurance markets. As stated in the Issues Paper, in inclusive insurance the need for providing customer value is particularly relevant. The reason being, that an insurance product in an inclusive insurance market can add value to the private objectives of the customer and to the overall public policy objective(s) of the country or region. It is therefore essential to provide appropriate insurance services which add value to the inclusive insurance customer. Following completion of the 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 of what modality a particular jurisdiction adopts in its approach to product oversight (as discussed in the Issues Paper), any approach should be risk based. Therefore, the supervisor should identify the risks to the objectives it seeks to achieve. The risk based approach should focus on identifying and mitigating risks and adopting sufficient measures to protect the customers.

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>). The reference to specific ICPs, Standards and Guidance in (the footnotes of) this paper may change as a consequence of ICP revisions.

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”.

7. Structure of this Application Paper

- Section 2 explains the concept of product oversight to demarcate the scope of the Application Paper.
- Section 3 describes the typical inclusive insurance market and customer. This section provides 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, the impact on the implementation and application of the ICPs.
- Section 5 provides application guidance of relevant ICPs in respect of product oversight. This guidance addresses the requirements an insurer is expected to meet.
- Section 6 provides application guidance of relevant ICPs in respect of product oversight. This guidance focuses on the implementation of supervisory oversight in this area.
- Section 7 contains a summary and conclusions.

2. Scope, modalities and approaches to product oversight

8. Effective oversight of products which are offered to customers is fundamental to maintaining fair, safe and stable insurance markets and as such, effective oversight is considered a key responsibility and activity of the insurance supervisor. Further, supporting the development of the market, particularly in the context of inclusive insurance, may also be considered part of an insurance supervisor's key objective. Effective requirements and monitoring of products can support the market's development by ensuring that products are fair, sustainable, provide value and build a positive reputation for insurance amongst previously excluded customers.

9. Product oversight can be defined as different sets of regulations, supervisory tools and processes used by supervisors to ensure the fair treatment of customers by insurers whilst designing, advertising, selling and exercising other rights and obligations arising out of insurance products. The primary objectives of product oversight are to prevent and/or mitigate harm to customers and to support proper management of conflicts of interest. Additionally, it is equally important to ensure that the consumers' objectives, interests and characteristics are considered. Proper product oversight can therefore strengthen the consumer confidence in the insurance sector as a whole.

10. Proper product oversight should consider all phases of an 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, for example, identifying target market, sales channels etc. Product oversight does not end at the design phase. It should also include a monitoring phase to determine whether the product performs as designed and a phase which allows for a review of the product.

11. To ensure that consumers are treated fairly,⁴ it is vital that product oversight arrangements are effective in making sure that insurance products meet consumer needs. In the context of inclusive insurance proper product oversight poses special challenges.

Observed practice(s):

In South Africa, 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 six TCF Outcomes to their customers throughout the product life cycle, from product design and promotion, through to 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 and 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 the point of sale;
- Where advice is given, it is suitable and takes account of customer circumstances;

⁴ The concept of fair treatment of customers is laid down in ICP 19 and "encompasses achieving outcomes such as: developing, marketing and selling products in a way that pays due regard to the interests and needs of customers; providing customers with information before, during and after the point of sale that is accurate, clear, and not misleading; minimising the risk of sales which are not appropriate to customers' interests and needs; ensuring that any advice given is of a high quality; dealing with customer claims, complaints and disputes in a fair and timely manner; and protecting the privacy of information obtained from customers" (Guidance 19.0.2).

- Products perform as firms have led customers to expect, and service is of an acceptable standard and as they have been led to expect; and
- Customers do not face unreasonable post-sale barriers imposed by firms to change product, switch providers, submit a claim or make a complaint.

12. 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 and additional costs through complex value chains or use of technology, for example mobile phones. Although proper product oversight should consider that unserved populations may be more vulnerable, regulatory requirements should not create excessive compliance costs thereby making inclusive insurance products less affordable.

13. 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 fair treatment of policyholders, ensuring an orderly market, and encouraging innovations to promote insurance access. Examples of risks include: products which do not meet consumers' needs, inappropriate premium rates (either too high or too low), complex products, less-financially capable customers and inadequate distribution channels.

14. Innovation plays a crucial role in inclusive insurance. Without innovation many approaches to develop affordable insurance products would not be possible. If the supervisor's mandate 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 the potential detriment of consumers' interests. In consideration of the fact that the target market for inclusive insurance products is less experienced with insurance than the conventional insurance market, the conduct of business standards plays a crucial role.

15. A crucial stage of product oversight is the introduction of a product to the market. At this stage, oversight can occur in three main modalities; firstly, a principles based approach, secondly, a file and use approach and finally, a prior approval approach. These approaches are discussed in more detail in section 6.1. Supervisors may adopt an approach which fits in-between two approaches or use a combination of approaches. In addition, there might be different approaches for different products within the same jurisdiction, for example a principles based approach for one type of product and prior approval for another type of product.

16. In practice, in many jurisdictions a combination of these approaches exists. The most common combination being a prior approval approach for products of mandatory insurance, and a principle based approach for other products. Supervisory approval of contract conditions or pricing is likely to be more appropriate in certain circumstances, such as where the insurer is dealing with less financially-capable or vulnerable customers, where products are new to the market or complex, or insurance contracts that are required by law such as automobile liability insurance or health insurance⁵.

⁵ See Guidance 19.5.3

3. Features of the Inclusive Insurance Market

17. This section presents - by reference to the Issues Paper - the main features of the typical inclusive insurance customer, some of the inclusive insurance products and other aspects which determine the context in which the ICPs need to be applied. Without a thorough understanding of this context a proportionate application of the ICPs could be problematic.

18. 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 and represent a concept broader than microinsurance⁶. These terms 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, whereas 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.

19. The Issues Paper ⁷ provides an overview of the unique features of the inclusive insurance markets which confront supervisors with conduct of business considerations and which differ from more conventional insurance markets, in particular (but not exclusively):

- 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.

20. The inclusive insurance customer’s profile: Although inclusive insurance customers are often well able to manage their livelihoods, they tend to be more vulnerable, often because of deprivations they face as a consequence of poverty and therefore 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 Issues Paper further elaborates on the inclusive insurance customer profile⁸ and in particular refers 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 the negative perception of insurance.

21. Thus, the characteristics of the low-income target market make its customers vulnerable to mis-selling, reduced value of products and customer abuse⁹.

22. Although the group of inclusive insurance customers is very heterogeneous, in general they require simple products. In practice the inclusive insurance products cover a very wide array such as health, agriculture, household property and credit (in connection with micro-financing). This heterogeneity of insurance products reflects the different needs of the various global inclusive insurance markets. Furthermore, it is expected that inclusive insurance will

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

continue to develop to cover additional risks, which are not currently covered, such as motor risks. This heterogeneity also occurs in the distribution models in inclusive insurance. In order to reach the end customers, a variety of distribution models are employed, even more so than in traditional insurance.

23. Regardless of the risk covered and distribution model, inclusive insurance products and their distribution need to be easily understood in order to avoid mis-selling. This could be achieved by making inclusive insurance products simple, understood, appropriate, valuable and efficient (SUAVE).¹⁰ Inclusive insurance manifests itself in 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 a position to understand the product and to have value for money from it. Factors to consider for inclusive insurance are set out below.

24. The country specific context and conditions: The country-specific context and conditions have an impact on consumer vulnerabilities in particular¹¹:

- National regulatory framework determining the scope and extent of involvement of the supervisor in conduct of business supervision in a specific jurisdiction;
- The attitude, role and involvement of the insurance industry itself towards consumer protection and particularly, 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.

25. The distribution models typical for inclusive insurance¹²: the typical business and distribution model as described in the A2ii Cross-Country Synthesis¹³ often characterised by a complex value chain, with multiple discrete players (including an administrator¹⁴, a broker or an agent, a customer aggregator and a payments platform) affect the relationship between the customer and an insurer. Multiple parties involved in the distribution will impact product oversight and the efforts which a supervisor needs to undertake in order to verify that customers are treated fairly. The involvement of multiple parties can also markedly impact the cost of insurance coverage (in particular if each party involved receives a fee or some form of remuneration).

26. The digitalisation of inclusive insurance transactions¹⁵: technical innovations such as mobile phone insurance (m-insurance), have emerged and have on occasions 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 Access to Insurance Initiative, 2014. Evolving Microinsurance Business Models and their Regulatory Implications | Cross-country synthesis note 1. Available at:

https://a2ii.org/sites/default/files/reports/2014_08_08_a2ii_cross-country_synthesis_doc_1_final_clean_2.pdf

¹⁴ An administrator means a person or entity that has a mandate from an insurer to do administrative work, notably claims administration, on its behalf.

¹⁵ 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

27. 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. The Standards set out key high level requirements that are fundamental to the implementation of the ICP statement and which should be met for a supervisory authority to demonstrate their observance with the particular ICP.¹⁶ The ICPs apply to insurance supervision in all jurisdictions regardless of the level of development or sophistication of the insurance markets or the type of insurance products or services being supervised.¹⁷

28. Section 4 of this Application Paper provides general considerations and guidance for implementation of various ICPs relevant for product oversight, with a particular focus on proportionality.¹⁸ The ICPs describe the proportionality principle by stating 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.*”¹⁹ The terms “*nature, scale and complexity*” used in respect of the proportionality principle, outline the main perspectives for considering proportionality. The proportionality principle in the ICPs gives room for tailored solutions to achieve the desired outcome or objective of the relevant Principle Statement or Standard when organising and carrying out product oversight in an inclusive insurance context.

29. 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 which is unfamiliar with insurance. Accordingly, certain aspects of product oversight disclosures and transparency requirements also need to be greater. The “*nature, scale and complexity*” of the risks to the product across the product lifecycle should also consider the risk of the product 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. The product and any product related processes should be proportionately assessed in terms of risk to the customer and to the reputation of the insurance market.

Observed practice(s):

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

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

31. The procedural aspect of proportionality entails that the insurers should adequately recognise and protect the interests of policyholders.²⁰ The adequacy criterion should be applied in relation to the nature of the inclusive insurance customers.

32. The substantive aspect of proportionality relating to product oversight expects that the scope of requirements for conduct of insurance business should reflect both the combined

¹⁶ Paragraph 6 of the Introduction of the ICPs

¹⁷ Paragraph 8 of the Introduction of the ICPs

¹⁸ In particular ICPs 7 Corporate Governance and 19 Conduct of Business

¹⁹ Paragraph 8 of the Introduction of the ICPs

²⁰ See ICP 7

probability and impact of the risk of unfair treatment of customers, taking into account the nature of the customer and the type of insurance provided.²¹ More specifically, the substantive application of proportionality in respect of distribution requires that insurers should consider the interests of different types of customers when developing and marketing an insurance product.²² With regards to product oversight within inclusive insurance, insurers are expressly required to identify the nature of the customers (i.e. their needs, their interests, their level of financial literacy etc.) and thus identifying the characteristics of the customers (after having taken into account their interests). A proportionate approach will take the nature of the customers into account. The terms used in the ICPs, such as “clear, fair and not misleading”, should be interpreted in a proportionate manner in respect of the promotion of products and services, the requirements for information at the point of sale, giving “appropriate” advice, etc.²³.

33. In many cases, both the procedural and substantive aspects apply 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 and the procedural aspect should be applied when examining the appropriateness of internal controls.

²¹ See ICP 16 and Guidance 19.0.4

²² Standards 19.1 and 19.4

²³ See Standards 19.6, 19.7 and 19.8

5. Application Guidance for regulations applicable to insurers

5.1 Product Design

5.1.1 Contractual elements: coverage, terms and conditions, pricing

34. As stated above, the main objective of product oversight regulations is to require insurers to consider the interests of different types of customers when developing and marketing insurance products.²⁴ Insurers should follow a robust product design process that considers the specific need of the target market when developing inclusive insurance products.

35. Being able to identify and understand the needs of the target market is crucial in product design and subsequent product oversight in inclusive insurance. Only after insurers have undertaken a thorough market analysis, can proper products be designed that meet the needs of consumers. The risks posed to inclusive insurance target market(s) can significantly differ from the risks which conventional insurance markets seek to cover by insurance. These differences may arise for a variety of reasons including; lower available income, lifestyles, geography, seasons, migrating patterns, level of literacy etc. It is the responsibility of the insurers to thoroughly research all such features in order to:

- offer products which will bring value to (inclusive) insurance consumers;
- keep the costs of such products at an acceptable level;
- ensure the availability of insurers' services after the sale of a 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 phase of the product. Monitoring and review of the product should be a continued activity.

36. 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.

37. In respect of coverage, proper product oversight in inclusive insurance should include defined and limited insurance cover with few if any exclusions. The products should be delivered to the target market using an appropriate form communication so as to ensure their understanding, even if delivered by unconventional means (such as mobile phones).

38. One element of product oversight arrangements includes setting in place a proper "infrastructure". The term "infrastructure" refers to all activities necessary for an adequate performance of an insurance product. The insurer should be responsible for the implementation of this infrastructure and equally should also ensure proper performance throughout the life cycle of the insurance product. Further, the insurer should have adequate reinsurance in place to protect its consumers and itself, in the event of large claims. Additionally, the reinsurance treaty may have consequences for the design of the insurance products (for example in respect of the insurance cover and exclusions). Moreover, the insurer should ensure that all of its after sales services and its claims process facilities are available to its customers. An adequate "infrastructure" should also take into account the proper

²⁴ Standard 19.5; 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.

distribution channels and should be able to effectively regulate in advance potential conflict of interest.

39. The inclusive insurance products should be affordable and have a reasonable cost or pricing structure (i.e. the price is affordable by keeping the expenses and profit limited).²⁵ The terms and conditions of inclusive insurance products should be fair to inclusive insurance customers and should therefore for example avoid a large number of exclusions, see Section 5.1.2.

Observed practice(s):

In Ghana, microinsurance is defined as targeting a certain market segment. This segment must be; proven to generate low income generally, a specific type or description of low income, or a low income person limited to a specific geographic area. The insurance 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.

The Insurance Regulatory and Development Authority of India, (IRDAI);²⁶ “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.”

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.

The 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 Services²⁷:

- 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; the documentation requirements are simple; and the manner and frequency of premium collections coincides with the cash-flow and are not onerous for the insured; and
- Defines rules on product bundling.

²⁵ It should be noted that not every supervisor has the authority to regulate insurance premium levels.

²⁶ Source: Report of the 5th A2ii – IAIS Consultation Call, Product Oversight in Inclusive Insurance, 28 August 2014

²⁷ RIC

5.1.2 Use of standardised products and product features²⁸

40. A supervisor may set requirements for standardised products, using standard contract formats, or specify requirements for product parameters or product features.²⁹ Product standards may be an appropriate method for the inclusive insurance business as the target population has less experience with insurance and products need to be simple, affordable and provide value to customers. The product standards are useful in areas where there is a high risk of consumer abuse, particularly where products are supply driven and mostly designed around the objectives of the insurer or the distributor as opposed to considering the needs of consumers. An example of this is where 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 an ease of understanding by offering a comparison of products for customers. Other methods available to a supervisor include offering customers a wider range of appropriate products, taken from a wider range of market players, offering customers standardised contracts and standard product feature requirements. The product standards may also support the supervisor to: (a) meet other supervisory and policy objectives, (b) support less onerous compliance requirements for simplified products, (c) oversee more efficient supervision of inclusive insurance business and (d) monitor financial inclusion targets.

Consider the interests and fair treatment of customers

41. 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.³⁰ 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.

42. The product features can generally be classified into three broad areas: (i) product simplicity, (ii) value to customers and (iii) fair product terms and conditions for customers.

- Product simplicity means that the cover, limitations on or exclusions of the risks covered and term (duration and renewal) of the product should be clear and easily understandable.
- Product standards can be used to incentivise the development of better value products³¹ which have appropriate benefits with reasonable and affordable premiums. In some jurisdictions the premium may be regulated especially if there is no competition to drive down prices.³²
- Product standards for fair terms and conditions help to reduce abusive market practices.

Observed practice(s): Simplicity

Microinsurance product parameters have been defined in various jurisdictions 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 microinsurers providing only these products. This is the case in the Philippines, India and South Africa (proposed). Some jurisdictions impose qualitative product restrictions.

²⁸ The discussion on product standards is broadly based on the follow paper “Insurance products standards to reach low-income consumers in South Africa: Help or hindrance?” Cenfri, 2011

²⁹ Paragraph 171 of the Application Paper on Approaches to Conduct of Business Supervision

³⁰ Standard 19.5

³¹ Insurance products standards to reach low-income consumers in South Africa: Help or hindrance? Cenfri, 2011

³² It should be noted that not every supervisor has the authority to regulate insurance premium levels.

Observed practice (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.

The 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 practice(s): Fair terms and conditions***Standardised policy wording, limited exclusions and minimum document requirements***

The 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 Southern African Development Community (SADC) harmonisation of microinsurance regulations principles. The maximum waiting period is six months in the event of a non-accidental death in South Africa, nine months for maternity benefits and two months in the event of a non-accidental death in Kenya and six 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 of or types 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: claims to be accepted or rejected within seven 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 has received all of 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 the 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 timeframe allowed for claims payments is 2 to 10 working days, depending on the type of product, according to the SADC harmonisation principles.

Ease of understanding and product comparison (references)

43. Prescribed product features and standardised products give customers more clarity on the cover provided and on common terms and conditions. This should help to reduce misunderstandings of the benefit promises and policyholder duties over the term of the product. The endorsement of standardised products and product features by the supervisor can give credibility to products and build confidence in inclusive insurance products. By

creating and collectively marketing a common brand for standardised products or products which meet prescribed features, trust can be built in the brand and in 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 within the market.

44. 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, particularly in circumstances where some product differentiation is permitted.

Observed practice(s): Microinsurance products

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

45. There is potential for misunderstandings and customer dissatisfaction with standardised products. This could occur if standard product features are different to what customers expect based on existing products, for example, an informal cover available in the market (cover provided by unregistered entities such as funeral cover provided by funeral undertakers). Introducing standardised one-year renewable term products may not be in line with customer expectations if existing products in the market offer lifetime products for funeral insurance with level premiums for life.

46. In addition, if product standards outline the general principles for certain product features, then any subtle differences in the product features may lead to false expectations particularly if customers expected the products to be identical.

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

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

48. The standardisation of products can contribute towards lowering regulatory barriers to the expansion of inclusive insurance markets. Any product restrictions which aim to simplify the microinsurance business can also be used by supervisors to limit the risk and complexity of the business. This, in turn will support less onerous regulatory requirements, for example, prudential requirements and reduce any regulatory barriers to the expansion of inclusive insurance.

Observed practice(s): Limiting the risk of the business

The following product limitations are used by supervisors to limit the risk of microinsurance 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); and
- Risk only cover and sum assured basis (Kenya, South Africa, SADC principles of harmonisation of microinsurance regulations).

49. The product standards can lead to greater efficiencies in supervisory processes for product approval, thereby allowing for faster product approval and for the supervisor to identify more easily the non-desirable and non-compliant product features. With regards to standardised products, the supervisor will be expected to focus more on the sales, servicing and operational processes around the products.

Observed practice(s): Efficient product approval

Brazil: Faster product approval by the Superintendência de Seguros Privados (SUSEP). On average, the product approval is obtained within three days as long as the product operates with standardised coverage, exclusions and with minimum document requirements as per the microinsurance regulation. This helps to facilitate effective insurance supervision since it allows a quick product analysis by the supervisory authority and helps to perform inspections focused on more specific aspects, such as checking payment of claims within a defined period, policy sum assured limits, adequate policy delivery and use of appropriate distribution channels etc.

50. The on-going monitoring of product experience may also be more efficient. The standardisation of product features facilitates a 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 those products where experience falls outside of expected benchmarks and to apply the necessary corrective measures. Over a period of time insights from the collective experience can be used to adjust product features to better meet the changing needs of the customers. The on-going monitoring of inclusive insurance products is discussed further in section 6.2.

Monitoring financial inclusion targets

51. Several jurisdictions have set targets to expand insurance cover for low-income and under-served markets. The financial inclusion targets may incentivise product suppliers to provide poor value inclusive insurance products. The product standards can, to some extent, address these potential negative consequences. The business volumes of standardised products or products which comply with prescribed product features have been used to measure increases in the number of policyholders from the underserved markets.

Observed practice(s): Financial inclusion target

India: The product targets for the rural and social sector need to meet minimum product standards; 7% (first year) to 20% (tenth and 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.

The Zimele and Mzanzi products have been 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.³³ 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.

³³ Insurance products standards to reach low-income consumers in South Africa: Help or hindrance? Cenfri, 2011

Approach and considerations in developing product standards

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

53. The supervisor and the industry both 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, such as a 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. However, 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 practice(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”.³⁴ The development of product prototypes with insurers helped to generate industry buy-in. Also, by including insurers in the process, both insurers and the government learned more about good microinsurance and this has spread to other products and processes.³⁵

The Zimele and Mzanzi products in South Africa were developed through the insurance industry associations³⁶

54. The 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. However, prescriptive requirements on product features and standardised products may:

- not fully cater to the needs of all members of a targeted customer group, particularly if the group is broadly defined, or does not fully cater to 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; and
- inadvertently interfere with sound business practice and the financial viability of inclusive insurance products.

55. The supervisor needs to strike a careful balance when setting out product standards to address concerns over low value of products to clients and fair terms and conditions. The product standards should therefore not impact negatively on the insurer's ability to manage risks, for example anti-selection. The product standards should neither contain incentives in

³⁴ Report Regulatory Impact Assessment Microinsurance Philippines, 2016

³⁵ Report Regulatory Impact Assessment Microinsurance Philippines, 2016

³⁶ Insurance products standards to reach low-income consumers in South Africa: Help or hindrance? Cenfri, 2011

respect of (the assumptions to be used for setting) maximum premiums levels which prevent inclusive insurance products from being commercially viable.

56. Some jurisdictions take a principles-based approach that sets up best practice principles (e.g. Ghana) while others 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).

57. The 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. However, a principles-based approach loses some of the advantages of (a) facilitating a common understanding of insurance products, (b) ensuring the ease of a comparison across products, (c) removing barriers and (d) developing a more efficient form of supervision of the market. A balance needs to be achieved between setting product standards to protect consumers while promoting access to insurance and growth in the inclusive insurance market.

58. 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 where 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.

59. Any weaknesses in product standards may lead to dissatisfaction with products or a withdrawal of products from the market and this may impact a large number of customers. There is also a risk to the supervisor's reputation if the supervisor has set inappropriate standards for products or if the supervisor has endorsed inclusive products that fail in the market. The inclusive insurance products are generally high frequency, low severity claim products where the risk margin does not need to be overly high. The primary goal of insurance is to pay claims to policyholders.

5.2 Product Governance

5.2.1 Product Governance in general

60. Regardless whether the supervisor adopts prior approval, principle based or a combined approach, the product oversight arrangements are closely tied to the insurer's governance arrangements. In cases of a principle-based approach the activities of the supervisor should be focused on the governance arrangements, which does not necessarily mean that in the prior approval approach such arrangements have any less significance. For the purpose of this Application Paper product governance is defined as internal processes, organisational arrangements, functions and strategies undertaken by insurers aimed at designing, distributing and reviewing the insurance products throughout their lifecycle. As such they form part of the insurer's corporate governance.

Observed practice(s): Governance

South Africa: The Financial Services Board has introduced a framework for treating customers fairly (see box after paragraph 11). 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 culture³⁷; and
- 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 the planning, designing and pricing of products and filing them with the regulator. The PMC has a role to play in all products, including those requiring prior approval where 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 prescribed or set out by the regulator which ensures that the products follow a systematic method of development, scrutiny and implementation.

61. Insurers are required to establish and implement a corporate governance framework which, among other objectives, adequately recognises and protects the interests of the policyholders.³⁸ The insurers' senior management needs to promote fair treatment of customers.³⁹ The recognition and protection of policyholders (as contained in ICP 7), should be adequate according to the customers' knowledge level, their awareness and specifically their awareness of the potential risks to them arising out of products offered. Therefore, insurers should establish appropriate product governance processes.

62. The key governance arrangement also to be applied in the context of inclusive insurance product oversight is the requirement that the ultimate responsibility for products offered to the inclusive insurance market lies with the board of the insurer. This responsibility includes all phases of product development, constant monitoring and review of the products and distribution. Moreover, the insurers' board should bear the overall and strategic responsibility for the distribution of inclusive insurance products regardless of whether the distribution is part of the insurers' organisation or is outsourced to third parties.

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

64. Given the nature of an inclusive insurance business model and the risks to the consumers, the level of financial literacy of the target market and the role of third parties in a particular business model should be taken into account when applying the principle of proportionality to insurers' governance arrangements. Also, special care has to be given to issues pertaining to conflict of interest as the customers might not be aware of the different types of intermediaries, their roles and in whose interest they perform their services. The insurers system of governance should also ensure that the sales model does not give distorting incentives and consequently encourage the intermediaries and/or their own salesforce to push products onto the customers which are not in their interest. The 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

³⁷ TCF Roadmap, Financial Services Board, 2011

³⁸ ICP 7

³⁹ Standard 7.10

representations will be given orally and the insurers should ensure appropriate internal control for avoiding misrepresentation.

65. A key part of the product governance is monitoring the performance of products for inclusive insurance customers in terms of financial viability and the fair treatment of their customers. Providing fair treatment of customers involves ensuring that inclusive insurance products offer value to customers and that the terms and conditions of the product are taking the characteristics of the target customers into account. Monitoring the performance of inclusive insurance products is discussed further in section 6.2.

66. In ensuring proper processes for product oversight, it is critical that an insurer has in place effective systems for risk management and internal controls, including effective functions for risk management, compliance, actuarial matters and internal audit. In overseeing these different processes the key people should be always aware, that they perform such functions to ensure the fair treatment of customers.

67. A proper system of governance – including risk management and internal control - is one of the strongest safeguards for ensuring the fair treatment of customers, but it can also present considerable operational costs for the insurer. It should be borne in mind, that the insurer's operational costs are ultimately transferred to policyholders. Thus, a very sophisticated governance arrangement could practically mitigate the risks to the customers, but it could also make a product prohibitively expensive. The main challenge is in appropriately applying the principle of proportionality. For example, a very simple product may not need a fully qualified actuary in the design process, but would require a very high level of engagement of the compliance function in order to verify whether all appropriate procedures have been followed during the sales process.

Observed practice(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 they are not required to be a fully qualified actuary.

68. 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 simplification in this respect. However, such simplification should be commensurate with risks to both the insurers and to the customers. There are two main models which can be used to help reduce the costs of the key functions, namely outsourcing of key functions and merging a key function with another (key) function. In the case of outsourcing a key function, the insurer has to ensure that the outsourcing does not present an even bigger risk. In the case of merging a key function with another function, the insurers must make sure that any potential conflict of interest is properly managed, thereby achieving operational independence which therefore allows the key function, time and resources to perform its function.

69. Apart from innovation, the use of third party service providers is one of the main features of inclusive insurance. The third party providers can significantly lower the insurer's operating costs and can also provide the facilities for a whole new business or distribution model, resulting in particular product(s) being more affordable. Such third party providers come in many forms, such as administrators, intermediaries, distributors and aggregators. In designing proper governance arrangements in inclusive insurance product oversight, the insurers should consider 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 a third party's services) and make contingency plans in case the third party provider ceases to perform its services;

- Adequate controls over the third party provider; the third party provider(s) will often be the entity or entities who will most often interact directly 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. In the absence of sufficient controls there could be significant potential risks to the consumers directly, risks to the insurer and systemic risks, such as reputational damage to the insurance sector; and
- The insurers' senior management and the board should be ultimately responsible for any activities by or functions outsourced to 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.

70. In respect of outsourced activities, proper internal controls need to be implemented while still promoting the use of third party providers in inclusive insurance.⁴⁰ The basic principles to be applied are:

- The insurer must retain ultimate responsibility for outsourced activities;
- The outsourcing of an activity should not present a bigger risk than if such activity would not have been outsourced; and
- If a certain product is not feasible without outsourced activities, the supervisor should assess the appropriateness of the internal controls.

Observed practice(s): Management of Outsourcing Arrangements

In India, for example, there is specific regulation 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

71. 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.

72. 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 the point of sale.⁴¹

73. Disclosures for inclusive insurance products should follow the same principles as conventional insurance products. The disclosures should be easily understandable, provide information on key features of the product, such as approaches and should not obscure important statements or warnings, such as exclusions.

74. At the sales stage, disclosures about promotional material should provide customers with sufficient information so that they can make well informed decisions about the purchase of insurance. The customers need to be able to evaluate the appropriateness of insurance

⁴⁰ See Standard 8.8

⁴¹ Standards 19.6, 19.7 and 19.5; also Paragraphs 156-160 and 166-168 of the Application Paper on Approaches to Conduct of Business Supervision.

products in relation to their personal circumstances and to properly assess the fees and pricing structures.

75. The high degree of information asymmetry between insurers and their customers is a significant source of conduct risk particularly in the inclusive insurance market where familiarity with the products tends to be low and normal levels of disclosure may not be understood.⁴² Therefore, particularly for the low income consumers, factors such as pricing and terms and conditions of insurance products can often be opaque or even deceptive.

76. It is vitally important that insurers provide customers with key information which is not misleading, deceptive or confusing but which informs them of the fundamental benefits, risks, and terms of the product which shall then enable them to make informed decisions. The ability to make a well-informed decision is dependent upon information being disclosed to them through various channels including advertisements and promotions, presale, point of sale information and post-sale information.

77. Insurers are expected to have adequate policies and procedures in place regarding product promotion and disclosure to customers, and these policies and procedures should be implemented in an effective and on-going manner.⁴³ Ultimately, insurers and intermediaries are responsible for the timing, delivery, and content of information provided to customers at the point of sale.⁴⁴

78. 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. The 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 section 5.1.2). Further, those involved in the sale of inclusive insurance products need to be trained in the product features and sales processes for these products. The insurers must have controls in place and monitor the activities of their sales force under employment and all intermediaries to ensure that good sales practices are carried out in practice.

Presale Disclosure – Advertising and promotion

79. Any advertising and promotional material including the chosen method(s) of communication, should be appropriate for the target market. All of the information regarding the product(s) or services contained within the advertising and promotion materials should be clearly defined, explanation(s) provided where necessary and communicated in a manner that the target market will be able to understand.

80. The advertising and promotional material should clearly explain what the product or service is all about, how it works and how customers will benefit from it. In view of the fact that advertising and promotional material can create customer expectation, it is important that these clearly communicate the following: key limitations, exclusions, 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.

81. It is extremely important that advertisement and promotional materials should not mislead those customers with limited knowledge of insurance products and should not exaggerate the need for urgency as this could pressure targeted customers into making a hasty decision.

⁴² A2ii – IAIS (2014)

⁴³ IAIS Application paper on approaches to conduct of business supervision (2014)

⁴⁴ Standard 19.7

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

Observed practice(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 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 which the supervisor considers misleading.

Disclosure at point of entering into a policy

83. The information provided at the point of entering into a policy should be easy to understand 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, any significant limitations, not hide nor diminish nor obscure important statements or warnings

84. It is important that insurers or intermediaries disclose and explain key information about the product at the point of sale as customers are more likely to be receptive to information at that stage.

85. It is also imperative that key information is provided in a format that makes it easy for consumers to locate, compare and understand the information needed to make an informed decision.⁴⁵ It is important to note that excessive fine print or lengthy texts or texts in capitals can overwhelm customers with information, distracting them from the factors that are most relevant for their decisions.⁴⁶ It may be the case that customers do not always check the terms and conditions of policies, particularly if it is disclosed in the fine print or in any other typographical device that is difficult to read. Therefore, 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, for example exclusions and important terms and conditions in small fine print.

86. Ideally, disclosures should be delivered through a durable and accessible medium, for example by written or by electronic means, providing this is appropriate for the targeted customers.

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

88. To be effective, information should be disclosed in an unsophisticated manner, to assist those customers who are not as financially knowledgeable, or those who have limited experience of formal insurance to fully understand the product and make an informed decision. Therefore, it is advisable that information should be disclosed using plain and simple language that can be easily understood by customers. In order to cater to those customers who are

⁴⁵ National Treasury (2014)

⁴⁶ Chien (2012)

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 policy wordings etc., would also be necessary.

89. A simply designed product can be easily understood by customers with low levels of financial literacy and as a result make disclosure less complex. If disclosure is too complex then the design of the product might not be appropriate, such as those products with too many exclusions.

Observed practice(s): Disclosure requirements

In the Philippines, the policy contract for prototype microinsurance contracts is one page in length and written in Filipino and simple English. As required by the Insurance Commission, this document discloses key information about the product and insurer.

The National Treasury Policy Document for Microinsurance in South Africa proposes that microinsurance policy documents must have a policy summary which is written in English. This summary should be no more than one page in length, clearly written and set out using a readable print size with adequate 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 India, there are also specific disclosure requirements which must be reflected in a prospectus together with other sales material and “at the point of sale” material. Further information regarding sales can be found in the Regulations for Protection of Policyholders. In addition, there are guidelines for mandatory projected benefit values in life insurance. The Health Insurance Regulations also provides a Customer Information Sheet (similar to the Key Features Document) which requires the 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 simple insurance certificates with all the relevant details of both parties and the policy is 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.

The requirements for simple language and appropriate disclosures are also included in the regulatory framework (or proposed regulatory framework) for Ghana, Kenya and the SADC principles for harmonisation of microinsurance regulations.

Observed practice(s): Language of disclosure

Pakistan’s microinsurance regulations, 2014 stipulate that “any disclosure made to the microinsurance policyholder is at least written in the Urdu language.”

India’s microinsurance regulations stipulate that “every insurer shall issue insurance contracts to the individual microinsurance policyholders in a language recognised by the Constitution of India. Where this is not possible, a write-up on the details of the policy needs to be supplied in such language.”

Observed practice(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 or 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 for providing information on the content of the insurance, for example by posting leaflets in shops, referring to websites or printing conditions on fertiliser bags.

The process for buying a policy or for submitting claims has also been explained to customers by using pictures or cartoons or by radio or television broadcasting.

90. 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.⁴⁷ 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 products that are bundled with other goods and services, for example, credit life on taking out a loan, where disclosure practice is poor.

91. These standardised disclosure formats could take (i) a principles-based approach on the type of information that should be disclosed to customers, (ii) an approach that specifies mandatory disclosures or (iii) a product disclosure template. A principles-based approach, for example, requires that the consumer needs to have a possibility to compare policies, therefore allowing for more flexibility and scope to adapt disclosure to the needs of customers over time. However, it loses some of the advantages of ensuring clarity and ease of comparison across products.

92. The standardised format can take the form of a “Key Information Document” or a standardised disclosure template.⁴⁸ This document should summarise the product information and should not be more than one page in length. 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 the exclusions (if any) are;
- How much the premium is and where the customer must pay it;
- What will happen if the customer does not pay the premium;
- When, where and how the customer can claim and what documents will be required;
- When and where the customer can 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.

93. It may be relatively straightforward to set out the 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 insurer and which therefore, could cause differences between products and lead to confusion for customers.

⁴⁷ Guidance 19.7.7

⁴⁸ Paragraph 172 of the Application Paper on Approaches to Conduct of Business Supervision

Observed practice(s): Key Disclosures

The proposed microinsurance regulatory framework for South Africa states that the disclosure for microinsurance should contain 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)⁴⁹

94. 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 are aware of the features of the policy.

95. 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. For insurers that use digital technology 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.

96. Customers should also be informed of their legal rights and obligations relating to an insurance contract. A lack of knowledge and understanding of legal rights and obligations can result in repudiation of claims resulting from non-disclosure of material information by a customer. In the inclusive insurance market, supervisors may introduce standardised questions which are easy to understand and that an insurer can ask the customer, thereby 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.

97. On other rights relating to the insurance contract the supervisor can introduce a 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 a cooling off period, customers must be informed of the right to such 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.

98. Setting disclosure requirements which are appropriate to the needs of the inclusive insurance customers 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.⁵⁰

99. 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' by making the disclosure requirements too onerous.

⁴⁹ The South African microinsurance regulatory framework, National treasury policy document, 2011

⁵⁰ Chien (2012)

100. 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

101. 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 changes to rights and obligations arising out of the contract after its conclusion (such as premium increases linked to inflation) or any other contractual options the insurer may exercise; and
- disclose to the policyholder further relevant information depending on the type of insurance product.⁵¹

On-going servicing

102. 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.

103. 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.

104. 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.

105. 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.

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

Claims handling processes

107. Supervisors require insurers to handle claims efficiently and fairly, and have claims handling procedures that are simple, transparent and accessible.⁵² Claims handling practices need to ensure the fair treatment of inclusive insurance customers and the timely handling of claims.⁵³ The insurers should have adequate policies and procedures to ensure effective

⁵¹ Standard 19.9; Guidance 19.9.1 onwards; See also Paragraphs 182-185 of the Application paper on Approaches to Conduct of Business Supervision

⁵² Section 4.6 Application Paper on Approaches to Conduct of Business Supervision

⁵³ Standard 19.10

claims handling and individuals involved in the claims handling process should be adequately trained in order to provide an effective service.⁵⁴

108. Claims documentation and submissions processes should be reasonable taking the needs of inclusive insurance customers into account, including:

- ease of claims submission based on a clear and reasonable policy for submitting claims documentation which is to be disclosed in advance by the insurer, 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 pay claims payment after receipt of relevant documents minimal;
- communication on status of a claim;
- rejecting claims on valid grounds and communicating the grounds or details of any rejection; and
- accessibility to complaints and dispute mechanisms.

109. Intermediaries or other service providers may assist in the claims handling process. In these cases the roles and responsibilities of intermediaries should be clear and there should be no compromise in the quality of the service offered to customers.⁵⁵

Complaints handling processes

110. Complaints can arise for different reasons, for instance, in relation to a disagreement about the scope of a clause in the insurance contract, the (partly) rejection of a claim, regarding the compliance (or not) by one (or other) party of its obligations or the perception that the service provided by the insurer or the intermediary is inappropriate.

111. Insurers and intermediaries should have policies and processes in place in order to handle complaints in a timely and fair manner. Inclusive insurance customers are generally confronted with challenges and barriers for seeking redress⁵⁶ when they believe that they have been wronged by the insurer and possibly by the involved intermediaries' in the conduct of their business. There may be some customers who lack an awareness of their rights and the available mechanisms for seeking redress including compliance with the procedure for filing complaints with the insurer or the intermediary. In order to guarantee fair treatment of consumers, a supervisor should require insurers and intermediaries to deal in an effective and "fair manner" with consumer complaints and disputes. This means that insurers and intermediaries must act, at all times, with due care, skill, diligence, ethically and in good faith when dealing with consumers.

112. The information concerning its "right to complain" should be among the information that the customer receives before concluding the insurance contract.

113. Consumers can file complaints with insurers or intermediaries, or with third parties, such as the supervisor or consumer protection organisations. Therefore, there are both internal and external complaints handling mechanisms available to the consumers.

114. Certain challenges can arise in respect of the adoption and implementation of complaints handling mechanisms in inclusive insurance markets. Firstly, such complaints handling mechanisms may be expensive to maintain, notably when intending to include the

⁵⁴ Guidance 19.10.1 and 19.10.7

⁵⁵ Guidance 19.0.9

⁵⁶ "Redress" refers to a remedy or compensation for a wrong or grievance. According to the OECD, redress is "the compensation for economic harm, whether in the form of a monetary remedy (e.g. a voluntary payment, damages, restitution, or other monetary relief) or a conduct remedy with a restorative element (e.g. exchange of a good or service, specific performance or rescission of a contract)". (OECD, 2007)

elements set out below. Secondly, sometimes the insurers and intermediaries in inclusive insurance markets are not formalised (registered or licensed) and are therefore not regulated and supervised. On this point, formalisation is essential. Without formalisation, consumers will likely struggle to obtain redress and this will endanger consumer protection.

115. Consumers must be made aware of the available complaints handling mechanisms. Firstly, financial literacy programmes should provide general information about the “right to complain” and the mechanisms available in order to complain. Secondly, when products are marketed, information about complaint handling mechanisms should be included in advertising brochures, pamphlets, and other marketing documents and strategies. Thirdly, during the disclosure stage, prior to and at the time of entering into the insurance contract, complaint mechanisms should be mentioned in the same way that the characteristics of the insurance product are communicated. Fourthly, when a complaint is received, it is important to keep the consumer informed about the relevant complaint-handling process and any future steps that can or must be taken. The complaints handling information could be displayed in a visible manner at the premises of both the insurers and intermediaries’.

116. Insurers and intermediaries are encouraged to provide the following information to consumers:

- details about how to complain, including the identity and the contact details of the department in charge of complaints, including telephone numbers, website or addresses;
- consumer associations that could help consumers to make complaints and act on their behalf;
- the type of information which must be provided by the complainant;
- the characteristics of the applicable claimant handling processes such as: (a) when the complaint will be acknowledged, (b) what the handling timescales are and (c) what the available dispute resolution mechanisms are, in case the complainant is not satisfied with the decision.

117. In the particular case of inclusive insurance markets, insurers and intermediaries are encouraged to use innovative ways to disclose complaints handling processes to their customers, examples include; using mobile phones, the internet and free hot lines. The complaint forms should be made available to consumers either at the insurers’ and intermediaries’ physical address, or electronically. The complaint must be handled without unnecessary requests for documents, which could entail additional costs and delay.

118. The (final) decision in the complaints process should be drafted in plain language and should be delivered to the consumer by an appropriate communication channel which ensures that he or she will receive it. The decision should provide justifications and explain its effects and indicate all of the options available for seeking redress.

119. Supervisors should encourage the disclosure of consumer satisfaction statistics compiled by insurers and intermediaries. The accumulation of multiple complaints against insurers or intermediaries is an indication of an underlying (possible compliance) issue. The records on complaints handling allow the supervisor to undertake an assessment of the insurer’s fair treatment of customers. Therefore, it is possible for supervisors to encourage an on-going analysis of consumer complaints, based on adequate records. The complaints records should be made available to the supervisor.

120. If the insurer or the intermediary has resolved the complaint in favour of the consumer and where the resolution entails some form of compensation, it is essential to ensure that the consumer receives such compensation in a timely manner. If the insurer or intermediary does not honour their commitments in this regard, supervisors may consider enforcing the commitment (for example through fines).

Observed practice(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 a call centre platform to support policy holders on claims processing and with general enquiries about microinsurance.

Observed practice(s): Claims handling processes

Some insurers are using web-based systems that link partner branches to the insurer's system thereby making the claims processes efficient and which results in a reduction in the time spent verifying the claims and making the claim payment, for example, as at the Malayan Insurance in the Philippines and at the Aseguradora Rural in Guatemala.⁵⁷

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

In Brazil the new microinsurance rules require that insurers use remote means during the claims management process such as:

- obtaining the evidence of the authorship and confirming the integrity of contractual documents forwarded by the insurer;
- confirming the correct identification of the policyholder and its beneficiary, ensuring the authenticity and integrity of their data and personal information;
- confirming the validation of the receipt of documents and messages sent by the insurance company to the policyholder and beneficiary.

The deadline for claims pay-out of microinsurance products was extended from 10 to 20 days in the revised microinsurance regulations for Peru, 2016. The previous pay-out had to be made 10 days after the registration of a claim, which was considered to be too short a time period by the industry, especially in those cases where intermediaries are located in remote areas with poor access to mass media which help to facilitate communication between the parties involved.

Observed practice(s): Complaints handling processes

In India, the supervisor requires insurers to have their own board- approved complaints redress policies which must lie within the benchmarks laid down by the supervisor in the guidelines which have been prescribed for the industry. The timescales must be displayed prominently in all branches servicing prospects and policyholders. The supervisor requires policyholders to make sure that the insurer has exhausted the grievance mechanism or channel before deciding to approach the Insurance Ombudsman or other dispute resolution settlement mechanisms.

⁵⁷ Business Case for Microinsurance Part II: Follow-up Study on the Profitability of Microinsurance. ILO's Microinsurance Innovation Facility, 2014

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 in 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 by the Commercial Companies issued by the National Insurance Commission of the Philippines describes the principles and procedures of claims related dispute resolution mechanisms.

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

121. 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 approach or the prior approval system.⁵⁸ The choice for the optimal option differs according to 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, where the insurer is dealing with customers who are less aware of insurance, where products are complex or insurance contracts are mandatory by law, such as automobile liability insurance or health insurance⁵⁹.

Principle based system

122. The key feature of the principle based system is that the supervisor predominantly focusses on the internal processes of the insurer, concentrating on factors including product development, marketing and engagement with intermediaries, without specifically having the authority to preapprove new products or to make changes to existing products.

123. The supervisor needs to establish if the insurer has adopted and is applying appropriate processes in product development, throughout the monitoring and review processes and through the distribution stage. Indirectly, the supervisor oversees the governance arrangements and the independent operations of the key functions.⁶⁰ Although the principle based approach is more common in developed insurance markets, it may also be beneficial for the less developed insurance markets. In a risk based approach the ultimate responsibility for the products is placed with the insurer. The main drawback with the principle based approach is that it may be burdensome for the supervisors to monitor 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.

124. The main challenge for the supervisor is to determine the criteria against which the insurers' processes will be reviewed in order to assess their compliance with the 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."⁶¹ In practice, this would mean, that the supervisor will be in a position, to proportionately apply the criteria in the inclusive insurance environment for certain requirements tailored to the simplicity of the products and thus reduce the costs of the business model. On the other hand, the supervisor needs to outline supervisory requirements at a higher level and therefore less granular level.

125. 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 still be used as part of the supervisor's ongoing monitoring processes in on-site inspections. The supervisor can apply sampling techniques to check whether products are in compliance with applicable regulations.

⁵⁸ Guidance 19.5.3 – 19.5.5

⁵⁹ See Guidance 19.5.3

⁶⁰ Guidance 19.5.5

⁶¹ Guidance 19.0.4

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 people responsible for different product development activities (for example pricing); and
- Effectiveness of processes 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 to the target market;
- Initial research: investigate the 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 the insurance product is distributed to the identified target market in an 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 the 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

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

127. In terms of control over insurance products, it is said that the file & use is an option which fits in between the product pre approval approach and the principle based system.

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

129. With this method, insurers are allowed to offer products immediately after their filing or after they receive a quick analysis by the supervisor. In certain jurisdictions the supervisory response is expected within a certain timescale, for example in South Africa the timescale is 6 weeks. Nevertheless, supervisors may request changes in the products at any time. Even after this time, the supervisor should have the power to intervene.

Product pre-approval

130. In the product approval approach the supervisor has the power to approve the contract provisions and the pricing. In this approach the supervisor has the highest level of control in the product oversight. This seems to be the common supervisory approach for jurisdictions that are building inclusive insurance markets, where insurers might have limited technical skills or enforcement powers, distribution channels are new and often outside the remit of an

insurance supervisory authority and where 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 the management of conflicts 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 as part of the product approval process.

131. There are different types of pre-approval. Pre-approval can be applied to the terms and conditions, to the actuarial note, or even to an insurance rate in a more competitive market. The length of the pre-approval process can vary according to the product complexity and the way the process is conducted by the supervisor.

Observed practice(s): Credibility

The use of a logo helps to identify microinsurance products and to build awareness and confidence in the products:

- In Ghana, all product material for all microinsurance products are required to display the microinsurance logo.
- In the Philippines all those 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.

132. In general, the process related to the filing of products and approval or noting a unique product number can be expedited with the use of technology. Online methods of filing a product would ensure speed as well as transparency in terms of the timeframes and procedures involved. Online methods which captures information systematically helps to create a central database which facilitates a uniform approach to products as well as generating information for queries and the required reports.

Observed practice(s): Product submission process

In Brazil, the pre-approval approach is followed for microinsurance. On average, product approval is obtained within 3 days as long as the product operates with standardised coverage and exclusions, with minimum document requirements as per the microinsurance regulation.

A quick turnaround of product oversight is facilitated by the use of an electronic, web-based system. Insurance companies upload their products to the system and after SUSEP performs its checks, the product information is publically available on the SUSEP website. This procedure is an important transparency tool since it allows customers and other stakeholders to check if the insurance policy sold is in accordance with the product registered at SUSEP. The system is linked to a statistical accounting database, 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.

133. 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. This exercise may be fairly simple when reviewing if the product is compliant with binding provisions of law, but it may become much more complex if the approval process includes pricing. Thirdly, the supervisor needs to have properly trained

staff to correctly review the products. Further, the product oversight supervisory process must not end with the approval, as the supervisor needs to further monitor the product after the initial approval.

134. 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 a choice in insurance products.

135. A strict control as part of a pilot test or “sandbox” may help to foster innovation while maintaining an adequate level of consumer protection. In this situation a controlled environment would be created to sell a limited number of products for a limited period 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.⁶²

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

- Research into the demand for the product and market competition;
- Product features which are considered mandatory; fair treatment of customers and the management of the insurers exposure to risk (for example anti-selection);
- Pricing of the product (premiums that provide good value to policyholders and are financially viable to the insurer);
- 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 ongoing servicing of policies; and
- 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.

136. 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

⁶² See paragraphs 2.15 onwards of the Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets

	the Australian Securities and Investments Commission's (ASIC) regulatory requirements when they issue an insurance product.
Brazil	Insurance companies upload their products through an electronic web system which allows products to be made available to all interested parties registered on the SUSEP website. For general insurance, a file & use approach is applied, meaning that products (terms and conditions plus the 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 check the following: • 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) and • the technical provisions specification. The responsible actuary must sign the actuarial note. The pre-approval approach is applied to more complex products such as pension plans, annuities and those life insurance policies with a saving component. The insurance companies may choose to operate either with a non-standard 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 product plans or parameters which 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 etc.
China	Insurers must submit to the CIRC for pre-approval the policy terms and conditions and premium rates for those types of insurance which are “of immediate interest to the public, types of insurance that are mandatory and newly developed types of life insurance”. The policy terms and premiums of other products should be submitted to the CIRC for the record, this is an example of the file & use approach.
European Union	E.U. supervisors apply a principle based approach to product oversight; product pre-approval is not allowed under European Union law.
India	India has a combined mix of a prior approval system and the file and use system. Life insurance products need prior approval as do the retail health and retail non-life products. With regards to life products both the wording of the products as well as the pricing require the prior approval of the supervisor. The commercial category of products under the non-life segment up to a value sum insured of Rs.5 crores also need prior approval. However, the rest of the commercial products within the non-life category as well as group products in health are governed by the use and file system where the insurers need to obtain a unique identification number prior to the launch of the product. The use and file system is also followed for all Government notified insurance schemes in India. The supervisor reviews, on a sample basis, such products and examines them and has the right to question factors such as the design and pricing. Even for those products which 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	A file & use approach is used for microinsurance products which guarantees registration within a maximum period of 15 days. This approach was introduced in order to speed up the registration process for microinsurance products.
Philippines	All microinsurance products are approved.
Ghana	Insurance products in Ghana can only be issued after the National Insurance Commission (NIC) has given its prior approval for the product. Insurers can 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 (i.e. factors including, target market, price, affordability and accessibility of the product have been previously internally assessed). If the product no longer fulfils the microinsurance product criteria the NIC may issue a written notice revoking the approval of the product.
Slovenia	In Slovenia and being a member of the EU does not allow any prior approval of insurance products. In approaching product oversight issues,

	Slovenian supervisors are at the time of writing this report are in the process of implementing day-to-day supervision EIOPA's Product Oversight and Governance Guidelines (POG Guidelines). As Slovenia has a principle based approach to product oversight, it is implementing POG guidelines in a proportional way, taking into consideration the nature of the customer and the risk the product represents to the customer. Set out below are some of the policies used 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 the approach to product governance is, that the principle of proportionality should be applied in a reverse manner when applying it to a vulnerable class of customers. The supervisor would therefore check if: • The insurer's management has used due care when approving a certain product and, whether they have taken into consideration the target market and its features; • With regards to vulnerable groups of customers and in identifying the target market, the insurer should also identify which are unsuitable classes of customers (negative identification of the market) and what should the proper procedures be should the customer wish to buy a product which is not suitable for themselves; and • The insurer should establish proper internal controls for their own and external sales channels in order to properly monitor that the product is sold in an appropriate manner. A special focus should be given to external sales channels, which are inherently more difficult to control. Especially those products which are designed for more vulnerable classes of customers, the insurer should increase its monitoring of the product and, if a detriment to the customer is identified, for example, materially lower loss ratios than expected, unusually high complaint rates etc. then the insurer should actively investigate the reasons for this and consequently align the product with the interests of the customers.
South Africa	South Africa's microinsurance policy proposals² tightly control the parameters of product design permissible under a microinsurance license, in order to balance consumer protection and market growth imperatives. The product review will take place using a file & use approach.
USA	There is one general, well-recognised 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.

137. All things considered, a suitable regulatory approach to product oversight will depend on an adequate assessment of the risks and mitigating factors of each jurisdiction. According to the examples mentioned above, emerging countries tend to adopt a pre-approval approach for more complex products and a file and use approach for the simpler ones. On the other

hand, jurisdictions with a more mature insurance industry usually apply a more principle based approach. The prior approval approach and the file& use approach give more legal certainty to all the stakeholders as the supervisor will issue a formal decision. The principle based approach may be better suited for applying proportionality but may be more prone to the risk of arbitrary supervision.

6.2 Ongoing oversight

138. 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, 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.⁶³

139. 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.

140. The supervisor will monitor the governance processes and policies, implementation of procedures and outcomes of the insurer's activities with respect to the development and ongoing 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, monitoring of internal processes and reporting (particularly for outsourced activities) and monitoring of customer experience; and
- 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.

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

142. 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 the 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 where there has been a breach of compliance, failure of controls, reasons for a change in processes or other reasons for concern around the fair treatment of customers in product related matters; and

⁶³ ICP 9, See also Paragraphs 143 onwards and 153-154 of the Application paper on Approaches to Conduct of Business Supervision

- Other activities (for example, mystery shopping).

143. 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.

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

Observed practice(s):

In India, there are guidelines requiring insurers to specifically make certain public disclosures which apart from servicing ratios as 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 the insurers, intermediaries and service providers. 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, ongoing 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

145. Promotional 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 which relate to inclusive insurance products (see Section 5.2.2). Those 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.

146. The promotional 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; and
- Other activities include mystery shopping, surveys to establish understanding of insurance concepts and a 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, 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 during an on-site inspection.

The effectiveness of the insurer's processes for reviewing advertising material as well as instances of corrections or withdrawal of promotional material or activities can be investigated further during 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 through 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 market⁶⁴ 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 those 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 supervisor's staff can attend the training sessions and feedback assessments from those attending the training can be assessed during on-site inspections in order 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, monitor processes of sales practices as well as the activities of agents and sales persons can also be investigated as part of the on-site inspection process. For example, standard questionnaires can be used to gather information from customers and insurer processes can be relied upon to verify that the required information is gathered from customers at the policy inception stage. The reason(s) for changes in the sales practices and the controls and monitoring relating to sales can be investigated during 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 and investigate matters relating to advertising, misleading or overly pressurised sales practices, as well as claims related to complaints however, product misunderstandings may only become evident at the claims stage.

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 insurer or intermediary's performance 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 promotional material for inclusive insurance products as part of the ongoing monitoring of the activities in the market. This monitoring applies to all media

⁶⁴Application Paper on the Approaches to Conduct of Business Supervision

(television, radio, press, billboards, and on-line advertising) as well as street marketing activities, communication campaigns or events.

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;
- the general customer experience (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 insurer's sales practices through surveys, focus groups and tests,⁶⁵ for example, customer understanding of the 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, for example, use the findings from the customer satisfaction surveys conducted by the insurer as part of an on-site inspection and gather and analyse complaints information 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 within microinsurance contracts is not the right instrument, for example, 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. It was found that most agents who quoted transaction fees to shoppers informed them of 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 customer experience.⁶⁶

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 the shortcomings.

Post-sales servicing and information

147. The supervisor can assess ongoing servicing processes and the effectiveness of the service provided to customers through:

- Reporting and off-site analysis of complaints by customers related to ongoing servicing;

⁶⁵ Application Paper on Approaches to Conduct of Business Supervision

⁶⁶ CGAP study on mystery shopping in digital financial services 2016,

- On-site inspection activities reviewing processes and training for product servicing, notifications to customers and the complaints handling process of the insurer and controls and monitoring related to product servicing; and
- Other activities, include customer satisfaction surveys.

On-site Inspection

Ongoing servicing processes assessed for the product submission process under the product approval approach can also be investigated as part of 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 ongoing servicing activities as well as the controls and processes for monitoring ongoing servicing, including outsourced activities can be investigated further during on-site inspections. This may include investigating a sample of communications to policyholders for policy renewal or a reminder to pay late premiums, documentation regarding adherence to processes for handling queries (for example, average response time).

Reporting and off-site analysis

Persistency of data provided by insurers during the regular reporting to the supervisor (and possibly intermediaries) can give an indication of the performance of the insurer or intermediary in terms of ongoing 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 ongoing servicing activities of the insurer. The supervisor may review the results from any investigations conducted by the insurer or possibly independent experts may conduct these monitoring activities.

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

Claims processes

148. Insurers will need to ensure that claims handling processes are appropriate for the inclusive business. The supervisor can assess the documentation relating to 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 handling processes and insurer monitoring activities; and
- Other activities including 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 by using sample checks of claims files as part of a thematic on-site inspection.

On-site Inspection

Claims handling processes assessed 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 length of time it had taken for the payment to be made 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, disputed 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 from a product basis.

Other methods of investigating customer experience

Interviews can be conducted to assess customer 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

149. It is important to monitor the ongoing 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; and
- Other activities include monitoring of complaints and an independent review of the performance of the product.

150. The supervisory processes investigating product development, ongoing 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 those responsible for monitoring product performance as well as 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 during 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. However, 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 at 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 or a high severity claims pattern).

The Philippines has developed reporting templates showing various ratios relating to 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. The ratios used 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 microinsurance, 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 obligations in terms of the premium, number of lives to be covered etc.).

151. 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 manner. Although inclusive insurance products may be simpler than 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 in inclusive insurance business.

6.3 Supervisory measures / intervention

152. The nature of the supervisor enforcement powers influence the type of oversight product approach adopted by a jurisdiction. Although an enforcement system comprises of a wide range of measures that supervisors can take, depending on the country's legal framework, some remedial actions may take a considerable time to be applied. 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, preventing a product from entering the market or an immediate withdrawal of the product from the market in case of non-compliance with the product approved by the supervisor.

Observed practice(s):

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.

153. A general overview of measures or 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 instead of the one which 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 directly (only in respect of the supervisor's internal processes)	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

154. 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.

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

156. 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

businesses must take priority over others. Conduct detrimentally affecting the disadvantaged and vulnerable policyholder groups need greater attention.

157. 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.

158. 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?

159. Proactive 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 practice(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;
- Under certain circumstances, the regulator can 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 publicly disclose the identity of any person who is deemed to have contravened legislation ("name and shame");
- The regulator can also refer cases of contraventions to the prosecuting 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" which looks into all violations/non-compliances that are noticed during on-site inspections. The Enforcement Department ensures a broad uniformity in its approach to enforcement actions. Enforcement actions may range from a simple caution or warning to a penalty or to remedial action in order 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?

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.

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

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

162. 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 a premium higher than that approved under the prior approval system charged, the insurer must make good the excess premium charged to the policyholders involved. Any remedial action would be independent of other enforcement action that the supervisor may take.

163. Apart from any remedial action taken on behalf of the policyholder, punitive action would need to be given to the regulated entity, depending on the gravity of non-compliance or violation. This could vary from a fine to a simple advice or caution or to exemplary punishment such as suspension of a particular sub-segment or segment of business or all business for a certain period of time.

164. 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

165. 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 an important objective to protect the interests of the 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 to customers.

166. 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.

167. 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 or design, sales process and post-sale servicing.

168. 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 (September 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.

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