

## **GFIA comments on IAIS consultation on draft issues on conduct of business in inclusive insurance**

The IAIS' recent paper, *Conduct of Business in Inclusive Insurance*, effectively identifies the important role that insurance plays in reducing poverty and improving social and economic development. It also helps governments to fulfill their objectives in things like public health enhancement or dealing with the negative effects of climate change.

To achieve these objectives, the paper notes, supervisors must look "for an appropriate balance between regulation, enhancing access to insurance services and protecting policyholders". GFIA fully agrees with this statement.

GFIA is sure that the insurance industry can and should continue to be a strategic partner to global policymakers in solving, through the access to insurance, some of the most sensible problems faced by population.

GFIA strongly supports the idea that, to increase financial inclusion, regulation must balance the legitimate concerns regarding consumers' protection with measures that promote and facilitate the development of microinsurance. The particular microinsurance consumer profile, characterized by low income and low financial literacy, justifies the need to have an appropriate conduct of business regulation framework that, without discouraging microinsurance market development, protects the consumer. It is important, therefore, for the sake of the healthy development of a microinsurance market to prevent and avoid customer abuse while providing value added products to policyholders.

As such, many of the regulatory recommendations addressed in this paper are very important for ongoing public policy discussions, which are currently transforming many national regulatory frameworks. The product life cycle approach used in the paper, which allows a comprehensive view of the different stages involved in microinsurance conduct of business regulation, is very useful to address all the regulatory trends suggested by the IAIS.

The paper suggests a number of regulatory recommendations that could provide a good balance between financial inclusion and consumer protection. However, it should be noted that some regulatory concerns could carry several unintended consequences:

1. **Coverage:** The paper notes that supply-driven products, such as credit-life insurance, are only designed to meet supplier needs. This may translate, according to the paper, into suboptimal consumer protection and abuse. In this regard, a fundamental distinction between attached sales products and embedded

products must be made. Attached sales products frequently do not solve any consumer need; it is only a way to force the consumer to buy a product that they do not want and that, probably, provides no added value to them. On the contrary, insurance embedded products, such as credit life insurance, generate added value for the consumer, because they respond to a particular need. These kinds of products play an important role in enhancing financial inclusion. Credit life products, for example, reduce the risk premium that banks charge to low income populations. Without these kind of guarantees, which provide legal certitude to lenders, many loans for poor people would simply not be given. For this reason, the regulation should make an explicit differentiation between attached sales and insurance embedded products, and be very careful to not hinder the objectives for which the later were created.

2. **Terms and conditions:** GFIA agrees that, in order to avoid restrictions in innovation and the provision of value added products, regulatory prescriptions should not be excessively detailed. The regulation, if well designed, could foster financial inclusion through appropriate conditions related to design, allowable exclusions, or restrictions of the maximum term length. However, if these elements are not correctly balanced, many unintended consequences in consumers' prejudice could arise.
3. **Pricing:** GFIA agrees that one of the most important elements for microinsurance development is affordability. Therefore, prices should not be prohibitive and payments should consider the irregular income flows of the potential consumers. However, regulation must avoid proscribing irrational price caps which may render microinsurance unprofitable, which would negatively affect potential consumers. Some products, such as catastrophic microinsurance, should also have deductibles for mitigating moral hazard and adverse selection risks.
4. **Skills and competence of the sales force:** Having a well-trained sales force, which can advise a consumer about which insurance product best meets their needs, is crucial to consumer protection. However, as stressed in the paper, microinsurance sales force regulation should not have the same burdensome requirements as traditional insurance. If too much regulation is imposed, unintended consequences could arise, such as not registering all sales persons for insurance distribution purposes. Regulation should also not disincentive innovative distribution channels development.
5. **Information disclosure:** GFIA agrees with the need to have a clear and transparent communication scheme in order to guarantee that consumers take an informed decision. However, regulation regarding information disclosure should not be too burdensome, as it could unnecessarily increase companies' operational and monitoring costs. This could translate into more expensive premiums and, therefore, the unintended consequence of reducing financial inclusion. Regulation must reach a balance between quality and quantitative information disclosure requirements. It is better to have important information, even if it is not all the information available, than a lot of irrelevant information.
6. **Premium collection:** The use of mobile phone technologies has helped to reduce transaction costs and entry barriers associated with insurance contracting. Many low-income people do not have this kind of technology, therefore, agents with their mobile phones play an important role with regard to premium collection. Consumers should be protected from any kind of abuse that could arise from these kinds of

premium collection methods; however, regulation should not hinder it by imposing burdensome requirements that, in the context of microinsurance market conditions, could not be properly met. In many low-income environments, banking penetration is insufficient, and therefore people do not have the means to pay their insurance premiums. In this context, these kind of innovative premium collection methods solve structural impediments that decreases financial inclusion.

7. **Claims settlement:** The claims payment process should be as simple and transparent as possible. The documentation requirements for proving the claim, although necessary, should be as simple as possible. GFIA agrees with the statement that claim payments, for this kind of market, should be almost automatic. GFIA therefore supports the development of parametric (indexed) and event related products that highly simplifies the claim settlement process.

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#### About GFIA

Through its 39 member associations, the Global Federation of Insurance Associations (GFIA) represents the interests of insurers and reinsurers in 59 countries. These companies account for around 87% of total insurance premiums worldwide. The GFIA is incorporated in Switzerland and its secretariat is based in Brussels.