

Microinsurance Policy Paper Ghana: Creating an Enabling Legal and Regulatory Environment for Microinsurance in Ghana

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1. Background to and Rationale for the Policy Paper

The Microinsurance Policy Paper maps out the National Insurance Commission’s (NIC) future path in the regulation and supervision of microinsurance in Ghana. It spells out the **strategic approach chosen, and the principles and key elements** underlying this process. In so doing, the Paper makes policy recommendations that lay the foundations for the drafting of a legal and regulatory framework aimed at enabling the microfinance market to develop in a sound and customer-oriented environment.

What is microinsurance and why it is important?

Microinsurance is insurance that is adapted to meet the requirements and needs specific to low-income households. Microinsurance is considered to have considerable potential for helping low-income households to manage their financial risks, for assisting insurers and intermediaries to expand their markets and for providing governments with a way to rely on privately-driven insurance in place of state funding schemes.

Microinsurance is provided by a variety of institutions, should be delivered in a way appropriate to low-income households and, to be sustainable, microinsurance products must be designed as commercial insurance products that are fully funded by the premiums paid.

Microinsurance should be managed by insurers and other providers in accordance with generally accepted insurance principles and practices and forms part of the broader insurance market. However, it is distinguished by its focus on the low-income sector which has a number of repercussions for the way that it is provided and accessed.

Microinsurance	Microinsurance is not
<ul style="list-style-type: none"> ▪ offers affordable premiums ▪ has limited risk cover ▪ uses easily understood contracts ▪ has few exclusions ▪ uses appropriate delivery channels ▪ provides fast and efficient claims settlement ▪ is a commercial product 	<ul style="list-style-type: none"> ▪ a national insurance or a social programme ▪ simply a low level of insurance cover ▪ funded by a general loan loss provision

Rationale for the Paper

More recently, stakeholders from the public and private sectors in Ghana **have begun to include microinsurance** into their agendas recognizing its relevance for poverty-alleviation and social and economic well-being as well as its potential to deliver an important pro low-income financial service, particularly when used together with other microfinance services such as savings, lending and cashless payment systems. An increasing number of private insurers and intermediaries such as Microfinance Institutions are pioneers in providing microinsurance products.

The NIC has recognized the importance of providing an appropriate legal and regulatory framework for microinsurance and has become a key driver in the process of pushing the microinsurance agenda forward whilst at the same time integrating microinsurance into the mainstream insurance sector.

This Paper, which is issued by the NIC on a consultation basis, proposes a policy blue print for a future legal and regulatory framework for microinsurance integrated into the wider legal and regulatory framework for insurance. By means of specific provisions the new framework will encourage and facilitate the provision of low cost, but high value insurance products that are appropriate to the needs of low-income households and micro and small enterprises and that will enable them to effectively manage their risks. This Paper is designed to set out the high level policy framework. It is not designed to provide detailed recommendations on the implementation of the policy within Ghana's current legal and regulatory framework. This will form part of the next phase of the Project.

The legal and regulatory framework for microinsurance that is proposed in this Paper is designed to

- protect the interests of customers by requiring transparency with respect to product offering and servicing and by requiring insurers and intermediaries to treat their customers fairly (CONSUMER PROTECTION),
- require microinsurance providers to act in a prudently sound manner (STABILITY)
- secure that providers are able to meet claims (SOUNDNESS)
- encourage private sector engagement in risk protection for the low-income segment, and the development of the microinsurance market in a sustainable manner, including motivating consumers to buy insurance (MARKET DEVELOPMENT).

Along with the creation of the intended regulatory framework, the NIC needs to build additional supervisory capacities (e.g. with respect to actuarial skills and the on-site supervision of insurance companies and microinsurance products).

This Paper is aimed primarily at the insurance sector in Ghana (both regulated and informal providers), the industry's representing bodies, the financial sector in general, consumer groups and non-governmental organizations (NGOs) interested in developing the access of low-income households to financial services and government authorities (such as relevant Ministries and the Bank of Ghana). The proposed framework will be discussed with the relevant public and private stakeholders to ensure it is well understood and accepted and will form an integral part of their organizational and public policies.

2. Features of the Microinsurance Landscape in Ghana

Insurers

Among the commercial insurers in Ghana, six currently offer microinsurance products. The sector so far covers around 160,000 insureds, much of this through credit life products. As elsewhere, precise data is not easily available as the number and type of microinsurance products are not separately monitored. Credit unions cover about another 80,000 insureds through their savings life products.

Many others are interested in entering the market. However, serious efforts to provide good-value microinsurance products on a large scale are still at an early stage. Capacity and understanding at all levels, from management to sales force, are probably the major constraints. The good-will and openness of the insurance industry provides good prospects for establishing a sound business case for the development of microinsurance products which will really serve the interests of low-income households and for motivating the industry to engage in this market.

Products

Voluntary microinsurance purchases are rare in Ghana. The range of products is rather narrow, with credit-life insurance dominating. Many products seem to be poorly designed by staff who have limited understanding of, and experience with, microinsurance. If insurers do not understand their customers' needs, finances and cultures then the design of effective products is seriously impeded. Combine this with limited actuarial data and nascent financial education efforts, and product value becomes illusive. Some promising product development has taken place but has not yet reached scale, and true value has still to be shown. Insurers need to move more towards simplicity on all levels of product design and work more to respond to clients' needs.

Delivery channels

There are various delivery channels close to the low-income segment in Ghana, such as the Credit Unions, Susu Collectors, Rural Banks, Savings and Loans Companies and Microfinance Non-Governmental Organizations but their impact for microinsurance delivery is still very limited. Effective delivery of microinsurance to low-income clients is one of the biggest challenges in the growth of microinsurance across the globe. In Ghana, as elsewhere, the right balance of incentives and products has not been reached.

Non-traditional delivery channels such as retail shops or cell phone sales have not been explored so far as the current regulatory framework does not allow such channels. There have been efforts to link E-zwich with insurance which may help reduce transaction costs for microinsurance.

Microinsurance agents – MicroEnsure and Star Microinsurance Services – are facilitating the delivery of microinsurance through product development, back office systems, and linking delivery channels to insurers to make the transactions more efficient. The volume of MI expansion is likely to be increased due to these innovations.

Realizing the potential of traditional as well as non-traditional delivery channels will take research, improved training, incentives and selling tools, as well as better products and motivated insurers. Many of the traditional delivery channels have expressed their interest in expanding into microinsurance.

Consumers

The financial understanding of low-income policyholders is very limited in Ghana. Policyholders often do not understand the concepts, benefits and rights and duties of an insurance policy. Various efforts have been undertaken by the government and private sector participants, such as the Insurance Association, with regard to improving insurance literacy. More recently, the focus has also been laid on the micro segment. However, significant effort is still required to massively and sustainably improve financial literacy for microinsurance clients.

Current legal and regulatory framework

There are currently no specific provisions in Ghana's legal and regulatory framework relating to microinsurance underwriting or delivery. Microinsurance is largely provided by formal market players under the framework established by the Insurance Act, 2006, although some informal microinsurance business is being carried on (as detailed below). The informal sector is not subject to regulation by the NIC. In the circumstances, regulated microinsurance providers are subject to the same regulatory burden with respect to their microinsurance products as with respect to their other insurance products.

However, the NIC intends to take advantage of the opportunity afforded by the development of new Insurance Regulations, Codes and other Rules and Guidance for the insurance sector as a whole, to make appropriate regulatory provision for microinsurance. For the reasons set out in this Paper, we recommend that the provisions for the regulation of microinsurance are fully integrated into the wider regulatory and supervisory framework.

Informal Sector

Credit Unions, funeral associations, and at least one MFI do provide some form of insurance but have no mandate from the NIC and are not subject to any regulation or supervision. Given that they are unregulated, and their costs are therefore lower, informal providers are able to compete unfairly with the formal sector. In some cases, regulatory forbearance might be a good option as it may encourage innovation and it may allow small providers that would not be able to comply with regulatory requirements, to provide microinsurance outside the regulatory control of the NIC. However, the existence of an informal sector is not conducive to sound market development and does not permit the NIC to fulfill its consumer protection mandate. In the circumstances, The NIC will consider this issue in due time, as far as a significant number of larger informal schemes does exist, the lack of integration due to supervisory constraints can only be justified for a certain time and up to a certain size limit.

Furthermore, the failure of a microinsurance provider would almost certainly damage the credibility of microinsurance and this could restrict its rate of take up and development. The risk of failure is significantly higher for an unregulated market participant and this therefore poses an unacceptable risk to the microinsurance sector as a whole. Low-income households and small and micro businesses would be unlikely to distinguish between the regulated and unregulated sectors in the case of failure of an unregulated market participant. Further research is required to understand the magnitude and challenges related to informal insurance.

Other relevant policy and regulatory initiatives in Ghana

Given that microinsurance is part of the wider financial services and commercial sector in Ghana, it is vital that the development of a microinsurance policy is coordinated with other policy initiatives. The following are relevant:

- The **Ministry of Finance and Economic Planning** is preparing the launch of a Microfinance Policy, the “Ghana Microfinance Policy”, which includes microinsurance as one among a number of microfinance product lines.
- The **Bank of Ghana (BoG)** is improving financial sector regulation and supervision which have repercussions for the different kind of financial service providers, including those related to microinsurance intermediation. Among others BoG has introduced a smart-card based payment system (E-Zwitch). It allows money transactions outside the financial sector which is relevant for small premium and claims payments, and already used for microinsurance payments. Microfinance Institutions, Rural Banks, Savings and Loans Companies and Credit Unions under the jurisdictions of other financial sector authorities could potentially play an important role as delivery channels for microinsurance. However, there may be regulatory overlap or gaps where microinsurance is delivered by institutions subject to regulation and supervision by the Bank of Ghana. It is therefore important that the NIC liaises with the Bank of Ghana as this Project develops to minimize delivery unnecessary constraints and the risk of regulatory gaps.
- The **Ministry of Trade and Industry** is working on a general consumer protection framework which includes issues related to the financial consumer, including microinsurance consumers. It will be necessary to verify whether any issues relevant to microinsurance are being considered, such as requirements for a “cooling off period” which would allow withdrawal from a contract within a given period. The Ministry is also considering the establishment of “small claims courts” for consumer complaints and arbitration in the regions outside of the capital. It is important to clarify whether there are potential overlaps or synergies.

3. Policy Considerations for a Legal and Regulatory Microinsurance Framework

This section outlines the **principal policy proposals for an appropriate legal and regulatory framework** to govern microinsurance in Ghana. These proposals are framed as high level policy objectives. This Paper is not intended to cover the detailed implementation of these objectives which is covered in a follow-up stage.

Overarching Objective

The overarching objective underpinning the creation of a legal and regulatory framework for microinsurance in Ghana is to **facilitate the expansion of insurance coverage to the low-income sector of the population, whilst minimizing the risk of failure of a microinsurance provider and providing adequate protection for the interests of policyholders.**

The modern approach to the development of financial systems recognizes the importance of financial services to all sectors of society, including the low-income sector and aims to promote financial inclusion. The objective as set out above reflects this approach and therefore aims to encourage and facilitate the development of “inclusive insurance products and services”.

Key characteristics of a successful microinsurance business model

It is considered that microinsurance will have the best prospect of providing inclusive insurance products and services if the underlying business model has the following key characteristics:

- (1) **Breath of outreach:** To ensure maximum take up, microinsurance should provide access to all low-income insurable households and small and micro businesses at a fair cost.
- (2) **Diversity:** Given the different requirements and circumstances of different types of low-income households and small and micro businesses, microinsurance should be provided in a market-driven environment by multiple types of insurance providers and intermediaries.
- (3) **Sustainability:** In order to ensure sustainability, providers must be financial sound and the microinsurance products must be commercially viable.
- (4) **Integration:** Microinsurance is an integral component of the financial sector.
- (5) **Efficiency:** Low cost provision and the use of modern technologies allow for cost-efficient provision which makes premiums affordable.
- (6) **Innovation:** Providers must be innovative in their provision of new products; and sales, distribution, administration and servicing models.

The legal and regulatory framework should be designed so as to facilitate these characteristics as far as possible.

Principles for the regulatory approach

Certain fundamental principles that underpin the regulatory framework for the insurance sector as a whole will apply equally to microinsurance, for example prudential requirements. However, some regulatory principles that are of particular relevance to microinsurance may need to be applied in a tailored fashion to microinsurance.

In particular, the following principles will guide the new framework thereby contributing to its positive impact on the industry and consumers:

- (1) **Fairness and customer protection:** The legal and regulatory framework should aim to ensure that microinsurance products and services are fair to low-income policyholders, designed to address their real needs and requirements and appropriately and fairly marketed to and serviced for them.
- (2) **Proportionality:** The restrictions imposed on the industry must be proportionate to the benefits that are expected to result from them requiring the regulator to take into account the cost of regulation on firms and consumers.
- (3) **Low regulatory burden:** Emphasis should be placed on product simplification and simplified disclosure and reporting in order to facilitate low-cost provision of microinsurance products.
- (4) **Transparency:** The legal and regulatory framework should require transparent, clear and plainly worded marketing, explanatory and policy documentation so that the rights and obligations of the insurers and the insured policyholders are readily ascertainable and understandable.

- (5) **Arbitration:** Providers should be required to deal with claims and complaints fairly and where disputes arise, there should be simple and inexpensive arbitration procedures accessible to the low-income segment.
- (6) **Integration:** As well as facilitating the development of innovative products and delivery mechanisms, the legal and regulatory framework should enable the integration of microinsurance products with other financial services, where appropriate.
- (7) **Formalization:** Apart from transitional arrangements, microinsurance should only be provided by regulated insurers and formally accepted delivery channels.

Process and phasing of the development of a regulatory framework

The following **three steps** are fundamental to the legal and regulatory design process which will ultimately lead to a new legal and regulatory framework for microinsurance in Ghana, which are the definition of the approach, the definition of key elements, and the development of the legal structure, whereas the latter is not dealt with in detail in this Paper , apart from indicating matters requiring further consideration by the NIC,.

Step 1: Definition of the main thrust of the regulatory approach (or combination of approaches) to be used.

There are three possible options for the regulatory approach:

- (1) The **functional approach** which considers micro insurance as a separate business line (i.e. a special product with its own delivery rules). This approach ensures that all insurers deal with their microinsurance portfolios in the same way. Criteria for choosing this approach are that a significant number of insurers are willing to offer microinsurance. As this approach is less complex and therefore requires less regulatory and supervisory capacity, it is more practical from a short-term perspective.
- (2) The **institutional approach** which focuses on the service provider that, in the case of micro insurance, will be a specialized type of provider created for the purpose. An existing insurer would be able to obtain a dedicated microinsurance license which would be subject to separate regulation and supervision. The approach will only be viable if the supervisor is willing and has the capacity to create and supervise a new tier and there are significant informal players willing and able to comply with a formalized regime.
- (3) The third option is an approach which **combines elements of the two principal approaches**.

Taking into consideration the landscape of stakeholders engaged in microinsurance, the **NIC has decided that it will commence by implementing the functional approach**. The rationale for this is firstly that there is already a mature insurance industry that is willing and able to offer microinsurance and secondly that the functional approach can be applied more quickly. Utilizing the functional approach should therefore enable microinsurance capacity to be more quickly developed both by industry and within the NIC.

At a later stage, depending on industry development and capacities, and the resulting policy considerations such as number of interested candidates and supervisory capacity, the NIC will assess whether to implement the institutional approach, thereby combining these approaches in the medium term. The creation of a new tier may become necessary depending on whether commercial insurers fully embrace microinsurance and successfully

penetrate all areas, including the rural areas and/or if the need for a new type of provider emerges, for example if there is political willingness to develop a framework for mutual insurers.

Step 2: Definition of key elements of a micro insurance legal and regulatory framework

This step involves delineating the **key elements** of a microinsurance regulatory framework which include

- (1) Definitions, concepts, and characteristics
- (2) Risks covered, products and contract issues
- (3) Delivery channels
- (4) Consumer Protection

These key elements are dealt with in more detail below.

Step 3: Development of the legal and regulatory structure

This step comprises:

1. Identifying areas where the legal framework (whether primary or secondary legislation) needs to be amended and regulatory provisions have to be developed;
2. Identifying areas that should be covered in Codes or guidelines developed by the NIC;
3. Identifying other parallel activities, e.g. performance indicators for industry and business; adopting a plan for a consultative process with stakeholders and policy makers; and agreeing the appropriate timelines.

Consideration for NIC: *Once the content of the policy framework is agreed on, work on the details of the key elements can be commenced and the legal framework developed. The primary legislation (here the Insurance Act) should establish an enabling and flexible framework. It should set out the main principles but should not contain details which may require to be changed as the market and supervisory capacity develops or international standards change. The detailed provisions should be contained in regulations and one or more Codes issued by the NIC. To provide maximum flexibility, and to ensure compliance with international standards, the Act should delegate sufficient regulation or rule making powers on technical requirements and obligations to the NIC.*

Given the complexity of insurance regulation, and the desirability of a principles-based approach, the use of Guidelines is recommended to supplement the specific legal and regulatory requirements.

For fitting regulations on microinsurance into the legal structure there are two options:

- *Option 1: Integrating micro insurance legislation/regulations fully into the overall legal and regulatory framework with special rules for micro insurance.*
- *Option 2: Developing a separate legal and regulatory framework specifically for micro insurance.*

The first option is preferable for Ghana and is the option supported by the NIC. Microinsurance is insurance and the same regulatory principles apply to microinsurance as to traditional insurance. Integrating the regulation and supervision of microinsurance into the wider regime fosters consistency and enables attention to be focused on real differences. Inconsistencies can be avoided. Under a functional approach, microinsurance will be provided by mainstream insurers as part of their overall business. Given that microinsurance is regarded as no more than a separate business line, otherwise integrated into the insurer's

business, it is even more important that that the regulation and supervision is integrated into the overall legal and regulatory framework for insurance.

Key Elements

There are a number of key elements which distinguish microinsurance products and services from traditional insurance. The main elements relevant for the new legal and regulatory framework are its definition, related concepts and characteristics; risks covered, products and contract issues, delivery and consumer protection.

(1) Definition, concepts and characteristics of microinsurance

A clear legal definition of microinsurance is necessary to ensure that only appropriate microinsurance products fall within the lighter legal and regulatory framework envisaged for microinsurance. The definition should ensure that products are microinsurance products only where they possess the essential characteristics of microinsurance. Given the application of a lighter touch regulatory regime to microinsurance, with a lower regulatory burden, it is also essential that insurers, intermediaries and policyholders can determine with a high degree of confidence whether a particular product is or is not microinsurance. Furthermore, from a supervisory perspective, microinsurance needs to be separately monitored. The concept of microinsurance is considered to be best captured by testing a product against both qualitative and quantitative criteria. Useful qualitative and quantitative criteria are set out below.

Proposal for a qualitative definition in Ghana:

Microinsurance is insurance that is accessible by the low-income population. It is provided by regulated insurers. It's main aim is to protect the social economic living conditions of the low-income population against specific risks (life, asset protection, accident, health) through the payment of premiums related to the risks involved in line with the law and globally accepted insurance principles (IAIS Core Principles).

Alternatives for a quantitative definition:

The quantitative definitions can be based on the **sum insured** or premium level. In a global perspective most jurisdictions incorporated a quantitative definition based on **maximum premiums payable** (usually monthly). Here, there are two options:

Option 1 would establish different maximum premiums depending upon the line of business

Option 2 would establish a single maximum premium **level for all lines of business**

Considerations for NIC: *Although the legal definition may not explicitly incorporate these criteria, they need to be clearly understood so that the legal definition can be framed to only capture true microinsurance products. The qualitative criteria, in particular, although extremely useful to understand the concept of microinsurance, are not sufficiently objective or certain to incorporate within a legal definition. For example, the qualitative criterion that*

microinsurance is an insurance product that is intended to protect the social economic living conditions of the low-income population cannot be directly incorporated into a legal definition. It is far too subjective and cannot be assessed with certainty either by the regulator or by market participants. In the circumstances, the qualitative criteria should be used to guide the legal definition. Therefore, the legal definition should, as far as possible, be designed so that only products that fall within the qualitative criteria fall within the legal definition of microinsurance.

The definition of an appropriate level of premiums includes a baseline to which that level is tied, e.g. the national minimum wage.

It is not possible to specify minimum quantitative criteria that fully capture all the qualitative criteria described above. For example, not all policies with low premium levels will be microinsurance when judged against the qualitative criteria. If it is possible, it is likely that the quantitative criteria will be too complex to be useful. Given their subjective nature therefore, the quantitative criteria may need to be supplemented by a requirement for some level of approval by the NIC.

The qualitative criteria would be captured in the NIC's own internal approval criteria.

If the legal definition combines quantitative criteria with approval by the NIC, insurers, intermediaries and policyholders can always be reasonably confident that a product is, or is not, microinsurance and, from a policy perspective, the approval of the NIC will ensure that all microinsurance products also satisfy the qualitative criteria.

However, it could be administratively cumbersome for the NIC to have to approve products on an individual policy basis. In the circumstances, consideration could be given to specifying standard policy documents or terms, that would allow for only limited variation by the insurer. These standard policy documents or terms would be designed to reflect the qualitative criteria. To enable innovation, the NIC would also be able to approve policies on a case-by-case basis and also to specify new forms of standard policy or policy terms. This is covered further below (see Considerations for NIC on page 11).

As far as the **characteristics of microinsurance products** are concerned, their features clearly distinguish themselves from traditional insurance products. Microinsurance products are characterized by simple coverage, no or few exclusions and low risk events covering idiosyncratic risks (more below).

(2) Risks covered, products and contract issues

Microinsurance may cover a wide range of risks depending upon the demands and requirements of low-income persons, households and businesses and upon the ability and willingness of insurers to offer them. The objective is that microinsurance will include both life and non-life events, but the risk events need to be relatively predictable to justify the lower regulatory burden.

Under the Insurance Act, insurance is categorised as:

- **Life insurance:** Life products (credit life, term life, funeral policies) and endowment products; or
- **General insurance:** Property insurance (fire, burglary, storm etc.), disability, agricultural insurance, health products

As low-income households prefer bundled products a modality to offer combined products covering both life and non-life risks needs to be developed.

In order to assist in the design of the legal and regulatory framework, it is important to outline the desired **characteristics of a microinsurance policy**. These **include**:

- (1) The policy should be affordable, in practice meaning “low cost” or “low amount of premium”, reflected in the quantitative definition.
- (2) Product categories should be established that reflect the needs of the low-income sector.
- (3) Terms and conditions and processes should be transparent, and clearly and simply expressed to ensure that the client understands the product and the sales agent can adequately explain it to the client.
- (4) Microinsurance products should have few, if any, general or individual exclusions.
- (5) Flexible payment mechanisms should allow the client to catch up on premiums they may occasionally miss without the policy lapsing.
- (6) Claims settlement should be rapid to be useful for the target group.
- (7) Complaints handling, recourse and arbitration modes should be tailored to the living situation of the policyholders.
- (8) Group insurance reduces transaction cost, but individual insurance is also feasible.
- (9) Microinsurance includes short-term and long-term policies.

Considerations for NIC: *Certain standard policies and/or policy terms will need to be provided to describe a microinsurance policy. However, within this framework, the insurer should have some freedom to innovate and determine policy details. The regulatory provisions need to strike a balance between orienting the industry and protecting the consumer on the one hand, and allowing for innovation and flexibility.*

A method of imposing contractual requirements will need to be decided on: If it is decided that the Law should require a microinsurance policy to have certain specified terms and conditions, the appropriate mechanism for achieving this needs to be considered, as discussed below. This decision also feeds into the policy choices for making the insurance contract as clear and simple as possible.

Insurance is a complex area of law. It is not possible to have short and simple contracts unless the law clearly provides for the majority of the terms. In this case, the written policy can assume these standard terms and need only deal with the specific variables, eg level of cover, premiums, policy term etc. This could be achieved in one of two ways. The legal framework could impose a requirement on insurers to include certain policy terms in all microinsurance contracts. Alternatively, the law could deem all microinsurance contracts to include certain terms and conditions. The latter approach would prohibit any contracting out of these terms. We consider that this would be the better approach as it offers better consumer protection and permits simplification of contracts. This approach is supported by the NIC.

However, it would still be important for policyholders to understand the basis of the contract, but this would be a matter of education. The point is that the choice would be removed from the policyholder.

The NIC has the option to develop a master policy with certain standardized characteristics. The advantages would be that consumers can more easily compare the product from different insurers; and the regulatory burden is lower as approval and supervision are easy (registration of a product with NIC costs 1000 Cedi= 500 Euros). To allow for innovation, and foster product diversity and competition, elements of a healthily developing market, the NIC could individually approve any deviation from the master policy.

As far as endowment products are concerned, there is need to consider special consumer protection issues such as inflation, surrender terms, commissions, with a specific view on low-income clients. Furthermore, the costs associated with properly rating endowment products may limit their attractiveness as microinsurance products.

Separate reporting on the microinsurance business line is required. The NIC will need to develop a reporting system for microinsurance requiring certain benchmarks (e.g. number of policies, group and individual; lapse ratio, surrender value) to identify the volume of business, and to assess the true value of such policies.

(3) Delivery channels

To facilitate the large-scale and low-cost distribution of microinsurance products, alternative rules need to be in place. Simultaneously, regulatory arbitrage in the traditional insurance sector needs to be avoided.

The following criteria apply for the intermediation of microinsurance products:

- a) The insurer takes responsibility for the selection, training and control of its microinsurance agents. Consideration could be given to permitting the use of unlicensed microinsurance agents.
- b) A microinsurance agent shall sell only microinsurance products. The training of microinsurance agents is the full responsibility of the insurer.
- c) The NIC sets the parameters for the training of microinsurance agents.
- d) Regular agents can sell microinsurance if insurers train them in the same way.
- e) A microinsurance agent can sell the products of multiple insurers (one from each line).
- f) A microinsurance agent can be a private person or an institution.
- g) Traditional microfinance providers (Microfinance NGOs, Credit Unions, Banks, Rural Bank, Savings and Loans Companies) may be microinsurance agents.

(4) Consumer Protection

The risk of intentional and unintentional consumer abuse or misselling is driven by a number of characteristics of the insurance product, intermediation process and type of client which are highly sensitive with regard to ensuring purchase, a high renewal rate and creating true client value.

- **Products:** The nature of the product is complex. It may only be used years after its purchase when its true value becomes clear. Low-income consumers typically have a limited awareness or knowledge of the concept of insurance and need to be taught about their rights and responsibilities. It will therefore be necessary for the regulatory framework to impose requirements on the explanations provided to potential policyholders.

- **Sales:** Incentives may be misaligned due to the structure of intermediary commission. Sales forces have a high turnover for a type of client who relies on personal relationships. This increases the danger of misselling or lack of customer service.
- **Claims:** The claims process – which reflects true client value - requires understanding and resources to make a claim, the know-how to assess a possible refusal and the strength to go for arbitration.
- **Arbitration:** Easily accessible consumer arbitration mechanisms and clients familiarity with such channels provides individual protection after the event. However, its presence and effectiveness serves to reduce risk by raising the cost to financial service providers of harming consumers.
- **Client.** The level of sophistication of the consumer and the extent of consumer education are important consumer risk issues cutting across the elements highlighted above. Financially literate consumers are able to better assess their insurance needs, compare products and choose one that fits their need profile.

Consumer protection issues will be dealt with extensively in the new framework as **a cross-cutting theme**. The micro-insurance **product** features such as simplification proposed above impact on a number of these risk factors. Minimum information for microinsurance **contracts** will be developed to ensure transparency and effective claims handling. **Delivery** also deserves special view on consumer protection, such as training and control issues related to agents. Specific provisions for policyholder **arbitration** of low-income households might be required such as the use of small rural courts as foreseen in the general consumer protection framework which can also be responsible for such processes, especially in the rural areas. In this sense, the system to be established for low-income consumers needs to be integrated with the overall system for insurance.