Market Conduct (Microinsurance) Rules

Guidance Note on Approval Process

Introduction

1. The Market Conduct (Microinsurance) Rules ("the Rules") require the approval of the Commission for any new microinsurance product before the product can be marketed or sold. Although insurers may continue to sell existing microinsurance products, i.e., microinsurance products previously approved by the Commission, applications for the approval of existing microinsurance products must be made on or before 1st September 2013 if insurers wish to continue marketing and selling them.

2. Before making application to the Commission, an insurer must have carried out an assessment of the product against the criteria set out in the Rules for determining whether an insurance contract may be designated as a microinsurance contract. The criteria are as follows:

   (a) the insurance contract must be designed and developed with the intention of meeting the needs of, and being marketed and sold to

      (i) low–income persons generally;

      (ii) specific types or descriptions of low–income persons; or

      (iii) low–income persons in a particular geographical area;

   (b) the premiums charged under the insurance contract must be affordable for those low–income persons for whom it was designed and developed; and

   (c) the insurance contract must be accessible to those low–income persons for whom it was designed and developed.

3. An insurer must make a written record of the assessment that it has undertaken against the criteria, detailing:

   (a) the basis on which it has made the determination; and

   (b) how the insurance criteria meets the criteria.

4. The purpose of this Note is to provide insurers with Guidance concerning the Commission's expectations of the application process.

Transitional Framework

5. The Rules introduce a transitional framework, which is more fully explained in the Explanatory Note issued by the Commission on 6th February 2013. The Commission considers that the transitional framework provides a good opportunity for the microinsurance regime to be evaluated and refined before the proposed new Insurance Act, Insurance Regulations and Insurance Code are brought into force.

6. In the circumstances, the Commission does not intend to issue detailed Guidance at this stage. Instead, it would prefer to use the transitional period to gather information from insurers on the types of microinsurance products that they have designed and intend to design and, in particular, on the types of low-income persons that they are intended to be marketed and sold to. The Commission will use the information to develop more detailed guidance for the regime that will be introduced under the new Act. In order that this process provides maximum value, the Commission therefore expects insurers to provide detailed information concerning their assessments against the criteria when applying for approval.

General Guidance

7. As indicated in the Explanatory Note, a number of countries have used quantitative criteria to define what microinsurance is. In these countries, an insurance contract will always be microinsurance if it satisfies those quantitative criteria. In other countries the quantitative criteria are supplemented with some general qualitative criteria.

8. The Commission has decided against using specific quantitative criteria for a number of reasons, the principal of these being that:

   (i) Quantitative criteria are arbitrary.

   (ii) Quantitative criteria can vary over time and be difficult to assess, especially if linked to GDP, some other measure of national income or even a measure of minimum wage.

   (iii) Quantitative criteria may be appropriate for a particular insurance product, but completely inappropriate for a different type of insurance product. If different criteria are set for different products, the framework will become complex.

   (iv) Quantitative criteria are inflexible. The boundary may be set at a point which makes it uneconomical for insurers to sell a particular type of microinsurance product or which doesn’t permit the development of products that meet the needs of potential policyholders.

9. For this reason, the Commission is giving insurers significant flexibility, and some discretion, in their determination of whether or not a particular insurance product satisfies the criteria for microinsurance.

10. However, with the additional flexibility comes an additional responsibility to carry out a meaningful assessment. Therefore, the Commission will expect an insurer to demonstrate that it has carried out a meaningful assessment against the criteria. In the Commission’s view, this requires a two-stage process. First, it is necessary to identify the target market. Second, it is necessary to assess (in relation to the particular target market) whether the premium is likely to be affordable and whether the insurance contract is accessible to those low-income persons who constitute the target market.

11. Insurers should also note that the Market Conduct Rules require them to “have regard to whether the product is likely to provide value to the persons for whom it is designed”.

Application

12. The Commission does not intend to specify an application form. Application for approval can therefore be made by letter addressed to the Commissioner. The letter should be accompanied by:

    (i) a copy of the proposed insurance contract;

    (ii) the draft Policy Summary; and

    (iii) a written record of the insurer's assessment of the insurance product against the criteria.

13. The Commission can form a view of the proposed insurance contract and the Policy Summary by reviewing the documents. However, it is for the insurer to demonstrate that the contract meets the criteria. It will do this primarily through the written record of its assessment against the criteria. It follows that this is a critical document for the approval process.

Written Record of Assessment

14. In reviewing the written record of assessment, the Commission will have to be satisfied first that the contract has been designed for a particular target market. Although the Rules state that the target market may be "low income persons generally", the Commission does not expect to see this used as a default category. Therefore, an insurer will have to demonstrate, through the record of assessment, that it has given consideration to an appropriate target market. Where the product is stated to be designed and developed for low-income persons generally, the Commission will need to be satisfied that the product is one that is appropriate for low-income persons generally.

15. The Commission would like to see some general background information on the product and its benefits, whether the insurer has marketed similar products before and, if so, whether or not as microinsurance. An insurer should also describe

    (i) The process by which the product has been developed and the work that has been undertaken to develop it;

    (ii) the rating methodology used, specifying in particular whether the product has been rated on a community basis.

16. From a practical perspective, an insurer should address at least the following questions in relation to target market:

    (i) What is the target market? Where there is a specific target market, how is it defined? For example, is the target market defined by occupation, income level (within the particular category of low-income persons), particular needs or exposure to particular types of risk.

    (ii) Has the insurer undertaken any work to assess potential market demand for the proposed microinsurance product? If so, it should provide details.

    (iii) If no work has been undertaken to directly assess likely market demand, on what basis has the insurer determined the intended market? Note, this could be through informal discussions with, for example, a bank or in reliance on work carried out by others, such as Government Surveys and Reports and work carried out under the ProMiGH Project.

(iv) In which geographical area(s) is it intended that the product will be marketed and sold?

17. Having identified the target market, the insurer will need to describe the work that it has undertaken to assess the affordability of premiums and indicate the basis on which it has concluded that the premiums are affordable. This will clearly be more difficult if the target market is low-income persons generally. From a practical perspective, an insurer will need to address at least the following:

    (i) The ranges of cover that the insurer expects to be taken by those in the target market, and how this translates into premiums.

    (ii) The approximate income levels of those low-income persons in the target market and their living costs in order to derive a general indication of the proportion of available income that the premium is likely to require.

    The Commission does not intend to set quantitative criteria concerning maximum proportion of income level that premiums may represent as this is too rigid. However, the Commission will, as part of the approval process, consider whether it appears that the premium levels are affordable.

18. In relation to accessibility, an insurer should provide information on what distribution channels it intends to use and the extent to which these are already established or whether they are still to be developed. An insurer should indicate specific challenges it expects in making the product accessible to its target market.

19. As indicated above, although not a criterion, the Rules also require insurers to have regard to whether the product is likely to provide value to the persons for whom it is designed. In the Commission's view, the concept of value requires consideration of a number of factors, including price, the nature of the risk to which low-income persons in the target market are exposed, and the likely impact of the occurrence of an insured risk on low-income persons in the targeted sector. In general terms, the Commission considers that insurance is ideally suited to low frequency, high impact events. A high frequency, low impact event is better covered by savings and other risk coping mechanisms. An insurer will need to demonstrate that it has considered value against at least those factors.

20. Insurers should be sure to provide comprehensive but concise and clear explanations and to annex any relevant documentation to the assessment form.