Mass and Microinsurance: Consumer Protection in Inclusive Insurance Markets

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Mass insurance and microinsurance both contribute to creating more inclusive insurance markets. They have certain differences and commonalities in terms of the channels used, the products offered and the clients served. For most clients of inclusive insurance markets, it is their first experience with insurance. Therefore effective consumer protection is required to help them understand and develop confidence in insurance. Clarifying the differences between mass insurance and microinsurance business models will improve their understanding of choices available to them, what the industry can learn from the respective models, and how supervisors can strike a balance between risk, industry incentives and consumer protection while lowering compliance burden.

Distribution in mass insurance mostly relies on non-traditional channels, while microinsurance relies on both traditional and non-traditional ones. Traditionally, it has been microfinance organisations and cooperatives, insurance or microinsurance agents, brokers, and banks who have been driving product development and sales in microinsurance. However, more recently, mass distributors, the so-called non-traditional channels, among them retailers, utility companies, pharmacies, post offices, bill payment spots, pawnshops and mobile network operators, have been driving the growth of both mass and microinsurance products.

Products within both models are generally simple with few exclusions. However, mass products are designed primarily to suit the channel used, whereas microinsurance products are, in principle, supposed to be designed to meet the protection needs of the low-income segment.

Mass insurance addresses the wide-ranging **client base** of the mass channel irrespective of their socio-economic status, whereas microinsurance primarily addresses the low-income segment. Client segments for the two models can overlap but are not necessarily the same.

The nature, reach and negotiating power of non-traditional distribution channels bear certain **consumer protection** challenges. The primary goal of non-traditional distributors is not providing insurance, but rather to add insurance to purchases, services, payments, or airtime to strengthen their core business and/or leverage their large client base. The distributors own the client relationship and this can lead to them demanding compensation from insurers at onerous levels. Moreover, since most of them are from the non-financial world they do not fall under the purview of the insurance or banking supervisors. Potential consumer protection challenges related to this situation can include: The consumer is not aware of being insured; the consumer does not make an informed choice; the cover offered is not based on the client's

"We should think of an inclusive insurance regulation and not of a mass or a micro insurance regulation."

Alejandra Diaz, FASECOLDA Colombia

"Products need to be simpler and we should facilitate comparisons between products and prices."

Norma Rosas, Commission National de Seguros e Fianzas Mexico

"In mass distribution, we need to ask if the sales staff is sufficiently focused on the interest of the policyholder."

Peter van den Broeke, IAIS

needs; client services are weak or recourse options don't work for low-income clients and small covers; sales staff are not familiar with insurance and mis-sell the product.

Limitations: Mass insurance offers a huge potential for "leveraging opportunities in new markets" but also comes with certain limitations and threats. By using mass channels, insurers can tap into a new and large market segment. However, whilst non-traditional channels can be expected to know their clients' needs in their core business, they are not always aware of or concerned with the nature of their needs in terms of insurance. Inclusive insurance products are often limited in cover and value proportionate to the low premium levels. In terms of technology-based distribution approaches, additional risks are the misuse of data and the risks related to the use of SIM cards or e-wallets. The commission structures also need to be carefully analysed to ensure they are not unreasonably high, which has often been observed.

KEY TAKE-AWAYS

FOR INSURERS

Product value is very important in mass market insurance policies, and will generate trust and increase take-up over time. Both mass and microinsurance should offer product features that are SUAVE.[1]

Demand studies and client behaviour research can help design financial education strategies, and products and processes that are adequate and respond to clients' needs.

A careful choice of the channel includes sound compensation strategies and client centricity. Insurers need to develop strategies to maintain moderate commission levels for the distributor, and ensure products that provide value to the client.

Fairness to the client in low-income environments includes sufficient advice, accessible and prompt post-sales services; claims processes that are simple and rapid, and a well-trained sales force for any kind of channel the insurer uses.

FOR REGULATORS

Regulators need to advance regulatory innovation, which remains a balancing act. Proportionate approaches are required that incentivise the industry by lowering compliance burden, whilst still protecting consumers (i.e. client data protection without large administrative burden; allwoing non-traditional channels with lower agent training requirements; non-prohibitive anti-money laundering requirements).

Effective consumer protection needs to look at the claims process and respective data. Regulators should monitor and analyse industry claims performance. Claims processing periods and related ratios could be monitored by supervisors or be required by the industry associations. In any case, separate data sets are needed.

Two sets of regulations for mass insurance and microinsurance can create confusion in the industry and allow for regulatory arbitrage. A single, overarching dedicated regulatory framework for financial inclusion including inclusive insurance could encompass the advantages of both types of regulations in terms of innovative channels, high value products, and fair treatment of consumers.

[1] SUAVE = **S**uitable, **U**nderstandable, **A**ffordable, **V**aluable and **E**fficient