The role of mutuals, cooperatives and community-based organisations in inclusive insurance markets

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Mutuals, cooperatives and community-based organisations (MCCOs) comprise a diverse range of entities that share a number of characteristics. They are member-owned, democratic, operate on the solidarity principle, and they are created to serve a defined group and purpose. MCCOs are not-for-profit entities. They can range from small, village-based solidarity groups to large, licensed international organisations that are difficult to distinguish from commercial insurers. For many MCCOs, insurance is only secondary to their main functions.

Growth of MCCOs

MCCOs have experienced a revival since the financial crisis of 2008-2009. Substantial growth of new MCCOs has been recorded in emerging markets. Mutual insurers from advanced economies have also expanded into developing markets, either organically or through acquisitions. In a 2013 survey of CEOs of mutual insurers, 20% responded that they were looking at overseas opportunities to support sustainable revenue growth.

MCCOs are widespread in some jurisdictions, non-existent in others or operate in the informal sector. In the Philippines, about 14,000 cooperatives provide not only life insurance but also property insurance to approximately 14 million clients. In Ghana, MCCOs are not involved in insurance and there is no regulatory framework for them.

Key functions

MCCOs offer a variety of services, and function as more than just risk carriers. They can play a role as distributors or premium collectors, in claims assessment, as policyholder, voice of their members, educators, in the provision of complementary services and as risk carriers. Since they do not have the profit pressure, MCCOs can take a holistic approach in building the resilience of communities and provide education, loss prevention and access to health facilities as a means of risk reduction. Nevertheless, MCCOs are not charities and have to be sustainable and financially viable.

MCCOs fill a gap for low-income and rural populations who otherwise might not have access to insurance. MCCOs have strong ties to local communities and are seen by their customers as safe and trusted places. They can provide relief when other systems break down. This is illustrated by the fast response of mutual benefit associations (MBAs) that acted as service providers in the Philippines in the aftermath of typhoon Haiyan (called Yolanda in the Philippines).

Federations and associations of MCCOs play a key role in improving the professionalism of MCCOs by providing opportunities for peer learning and education on topics such as code of conduct. In some countries, MCCOs have also joined forces to set up their own mutual reinsurer.

"Mutuals come in many shapes and forms."

Peter van den Broeke, *International Association of Insurance Supervisors (IAIS), Switzerland*

"Since the financial crisis, mutuals have been experiencing a revival." Jonathan Anchen, *Swiss Re, Switzerland*

"There is a huge population segment that is left out by commercial insurers." Kalyanasundaram Muthukumarasamy, *International Network for Alternative Financial Institutions (INAFI), India*

"Any surplus or profit made should be utilised to improve the resilience of the people." Kalyanasundaram Muthukumarasamy, *INAFI, India*

"It has been said that insurance brings out the worst side of people – can mutuals crack this?"

Peter Wrede, *World Bank, USA*

"By leveraging new technologies, existing mutuals can continue to build on their recent renaissance." Jonathan Anchen, *Swiss Re, Switzerland*

Key challenges

Digital technologies are changing the way MCCOs operate, including in their communication with members and in their distribution channels. As MCCOs grow, they experience difficulties in staying connected to their members. Social media and online chats help MCCOs maintain the feeling of a close relationship with their members. Some regions have adopted digital distribution channels quicker than others due to varying consumer preferences. In the Americas and parts of Asia, for instance, consumers still tend to prefer traditional distribution channels.

Digital technologies have also made the emergence of new 'peer-to-peer' insurers possible. These companies try to leverage the internet, mobile technology and social media to bring people together into co-insurance pools for small-scale exposures. The companies are service providers rather than risk carriers, i.e. they share rather than transfer risk. These peer-to-peer insurers can cover an insurable need that may otherwise not be covered by the market and may thus be particularly useful to those excluded from conventional insurance.

Experience with dedicated regulatory frameworks for MCCOs is limited. In the Philippines, a dedicated regulation for MCCOs has been key to their growth. In other countries, however, MCCOs are treated the same as commercial insurers and in yet others, they are not permitted. A number of jurisdictions which currently do not allow MCCOs, such as Ghana, Sri Lanka and India, are thinking of developing regulations that will allow them to operate.

In many jurisdictions, unlicensed MCCOs have been offering insurance to their members. This is not only a concern from a consumer protection perspective, but also poses challenges for the MCCOs themselves. Without access to an insurance licence, MCCOs are unable to access reinsurance.

Due to their business model, MCCOs are more likely to limit premium increments and have higher claims ratios than commercial insurers. The average loss ratio of MCCOs is thus slightly higher than that of the overall industry. While small MCCOs have been doing relatively well in terms of average loss ratios, they face higher operating costs as they cannot reap economies of scale.

The specific features of MCCOs merit special treatment in a proportionate application of the Insurance Core Principles. A dedicated licencing regime may be required to ensure regulatory requirements that reflect MCCOs' unique structures, are proportionate to the risks they pose, and are sensitive to supervisors' limited resources. In the Philippines, MBAs are recognised in the insurance law and are allowed special dis-compensation from certain requirements. However, at the same time, their operations are restricted to the life sector since the capital risks associated with the non-life sector are too high for their portfolios. The forthcoming IAIS Application Paper on MCCOs provides guidance on the issues that supervisors need to be aware of when regulating and supervising MCCOs.

"In peer-to-peer insurance, the law of small numbers might work better than the law of large numbers." Jonathan Anchen, *Swiss Re, Switzerland*

"There is a possibility of commercial insurers to work with mutuals if commercial companies understand the motivations and ethos of mutuals". Sabbir Patel, *International Cooperative and Mutual Insurance Federation (ICMIF), UK*

"Creating room for mutuals might be needed to reach rural and other hard-to-reach communities." Michael Kofi Andoh, *National Insurance Commission, Ghana*

"The poor are bankable and insurable thanks to dedicated regulation for Mutual Benefit Associations" Fermin Gonzales, *Climbs Life and General Insurance Cooperative, Philippines*

"Being informal is a double whammy for the mutual: They can't raise funds from their members and they can't access reinsurance." Sabbir Patel, *ICMIF, UK*

"The decision of whether or not to recognise mutual lies within the scope of individual jurisdictions." Peter van den Broeke, *International Association of Insurance Supervisors (IAIS), Switzerland*

From a regulatory perspective, the corporate governance of MCCOs may warrant special attention. Members of MCCOs typically come together for reasons other than the provision of insurance (e.g. in the case of farmers or fishermen). The members know all there is to know about their business but not about insurance. If board membership is restricted to members of the MCCO, the board may not reflect the full range of expertise that is needed to underwrite insurance. In addition, the founder is often very dominant in an MCCO and lacks a natural successor.

***New regulatory requirements with respect to governance and solvency are a challenge for MCCOs*.** MCCOs tend to have limited access to external capital so increases in capital requirements can be particularly challenging. In addition, tighter corporate governance requirements are a concern for smaller mutuals and could impair their business model and force them to become more like a commercial insurer.

Different authorities with different areas of expertise may need to be involved in the supervision and formalisation of MCCOs*,* such as the insurance supervisor and the Ministry of Agriculture. Good cooperation amongst authorities is needed to avoid duplications or gaps in supervision.

Key takeaways and recommendations for action

For supervisors and policymakers

- Understand the comparative advantages of MCCOs (including their broad outreach) as a complement to the commercial insurance offerings, and identify the potential opportunities and risks associated with them.
- Create an enabling regulatory environment and adopt a proportionate approach to the supervision of MCCOs.
- Reach out to and cooperate with other relevant authorities in the regulation and supervision of MCCOs to learn and exchange experiences, and avoid gaps and duplications.
- To stimulate innovation, consider a regulatory "sandbox approach" aiming to create a safe space in which businesses can test their products, services, business models and delivery mechanisms without immediately incurring all the normal regulatory consequences of their activities.

For MCCOs

- Engage with the insurance supervisor from the outset.
- Ensure that at least some members of the Board have an insurance background or have the expertise needed to underwrite insurance.
- Join or form federations or associations of MCCOs, as these provide opportunities for peer learning and in some cases even reinsurance.
- Follow digital innovations and try to leverage them in insurance distribution, daily operations, and in building close relationships with consumers.

"**Changing corporate governance arrangements may also disrupt the operations of smaller mutuals."** Jonathan Anchen, *Swiss Re, Switzerland*

"If we adopt a one-size-fits-all model in regulation, we will not have innovation." Tang Loaec, *P2P Protect, Hong Kong*

"With innovation comes risk" Michael Kofi Andoh, *National Insurance Commission, Ghana*

"Regulators might not prevent innovations, but the fear of the regulator prevents innovation." Tang Loaec, *P2P Protect, Hong Kong*

"Regulators need to keep their eyes and ears close to the ground."

Arup Chatterjee, *Asian Development Bank, Philippines*

"Mutuals are different. Not bad, not better, just different."

Michael Kofi Andoh, *National Insurance Commission, Ghana*