“Pure” Intentions and Practice: Challenges and Good Practices in Consumer Protection in Microinsurance

This is a draft and we welcome any comments to info@microinsurancenetwork.org

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Executive Summary

This paper explores challenges and good practices in consumer protection in microinsurance, defining "consumer protection" as the effective use of microinsurance products by low-income consumers to protect themselves against risk. Consumer protection challenges fall into four main categories, 1) education and information, 2) product and process design, 3) regulation and financial soundness of providers and programs, and 4) capacities and responsibilities of stakeholders. The paper develops a "checklist" of attributes that an effective consumer protection regime will exhibit in each of the four categories, and elaborates examples of particular ways in which these challenges are manifested and interesting efforts to address them throughout the world. These examples are followed by case studies that explore consumer protection issues in the Philippines and Colombia in more detail, showing how the market, context, and interplay among these issues can influence the effectiveness of consumer protection.

We find that, in accordance with the definition above, consumer protection is best viewed as an outcome (rather than an infrastructure or set of processes); this view requires all stakeholders, including consumers themselves, to play an active role in consumer protection. Interventions aimed at improving consumer protection outcomes fall broadly into two categories: 1) re-balancing the roles and responsibilities of stakeholders given their current capacities, and 2) improving the ability of stakeholders to more effectively meet consumer protection needs over time. Regulators, supervisors, and other government bodies should play a leading role in determining how responsibilities for consumer protection should be allocated among industry, government, consumers themselves, and other parties. Capacity-building efforts should target stakeholders throughout the value chain, from regulators and supervisors (as they learn how better to meet consumers' needs) to industry players and end consumers (as they become more informed, empowered, and able to represent their own interests). Governments, donors, and industry (through individual insurers and delivery channels and through industry associations) can all play roles in capacity-building.

Both types of interventions should be informed by market conditions (and changes that may happen in these conditions over time) and ongoing monitoring to understand the effectiveness of existing measures and to raise red flags as new needs may emerge. Such efforts can support continuous improvement in consumer protection outcomes, the effective use of microinsurance by low-income consumers. These efforts can further support the value proposition for microinsurance among low-income consumers and also for other stakeholders, as they increase trust and help to ensure that microinsurance is valuable, effective, and sustainable for all stakeholders throughout the value chain.
Table of Contents

Executive Summary ...................................................................................................................... i

1. Introduction ............................................................................................................................... 1

2. Issues in consumer protection .................................................................................................. 2

   a. Education and information .................................................................................................. 5
   b. Product and process design ................................................................................................. 9
   c. Regulation and financial soundness of provider and program ............................................. 17
   d. Capacities and responsibilities of various stakeholders ....................................................... 20

3. Using country case studies to understand consumer protection ............................................... 23

4. Philippines case study .............................................................................................................. 25

   a. Microinsurance in the Philippines ..................................................................................... 25
      i. The microinsurance market and context ......................................................................... 25
      ii. Regulatory framework and developments .................................................................... 26
   b. Challenges and good practices .......................................................................................... 27
      i. Information and education ............................................................................................... 27
         Awareness and insurance literacy efforts ......................................................................... 27
         Training of delivery channels ............................................................................................ 28
         Product-specific information and consumer understanding ........................................... 29
      ii. Product and process design .......................................................................................... 32
         Product design and appropriateness .................................................................................. 32
         Marketing and enrollment ................................................................................................. 33
         Maintenance of policies ...................................................................................................... 33
         Claims ................................................................................................................................. 34
         Questions, problems, and complaints ................................................................................. 35
      iii. Financial soundness of provider and program ............................................................... 36
         Microinsurance products .................................................................................................... 36
         Microinsurance providers ................................................................................................. 37
         Microinsurance intermediation .......................................................................................... 38
   c. Lessons ................................................................................................................................. 39

5. Colombia case study .................................................................................................................. 41

   a. Microinsurance in Colombia ............................................................................................... 41
      i. The microinsurance market and context ......................................................................... 41
      ii. Regulatory framework and developments .................................................................... 43
   b. Challenges and good practices .......................................................................................... 45
      i. Information and education ............................................................................................... 45
         Awareness and insurance literacy efforts ......................................................................... 45
         Training of delivery channels ............................................................................................ 47
         Product-specific information ............................................................................................. 48
      ii. Product and process design .......................................................................................... 51
         Product design and appropriateness .................................................................................. 51
         Marketing and enrollment ................................................................................................. 52
         Maintenance of policies ...................................................................................................... 55
         Claims ................................................................................................................................. 57
         Questions, problems, and complaints ................................................................................. 57
      iii. Financial soundness of provider and program ............................................................... 58
   iv. Capacities and responsibilities of various stakeholders ....................................................... 58
   c. Lessons ................................................................................................................................. 59
6. Summary and conclusions

a. Viewing consumer protection as an outcome ................................................................. 62
b. Improving consumer protection by re-balancing roles and responsibilities .............. 62
c. Capacity-building to improve consumer protection ......................................................... 63
d. The role of monitoring ...................................................................................................... 65

References ................................................................................................................................. 66

Appendix 1. Assessment framework for country case studies .............................................. 68
Appendix 2. Group life insurance prototype policy (Philippines) ............................................. 72
Appendix 3. Key features of “regulation on consumer protection applicable to microinsurance” in Colombia ................................................................. 74
Appendix 4. Sample of Personal Accident Policy offered by Carrefour Supermarkets ......... 77
Appendix 5. Sample of Personal BANCOLDEX-Sponsored Individual Life Insurance Certificate ................................................................. 78

Tables & Figures

Table 2.1: Relative roles and responsibilities ......................................................................... 3
Table 2.2: Timing requirements for notification of decisions and payment of claims ............... 16
Table 2.3: Regulatory definitions of microinsurance: Premium, benefits, and approval requirements ................................................................................................. 18
Table 2.4: Monitoring consumer protection performance with the KPIs ................................ 22
Table 3.1: Demographic comparison of Colombia and the Philippines .................................... 24
Table 4.1: Key regulations related to microinsurance in the Philippines ................................. 27
Table 4.2: Overlap between performance standards for microinsurance and KPIs .................... 37
Table 5.1: Regulation on consumer protection applicable to microinsurance consumer in Colombia ........................................................................................................... 44

Figure 2.1: Excerpt from “Familia Estou Seguro” booklet ....................................................... 5
Figure 2.2: Sample components of the AMUCSS financial education .................................... 7
Figure 2.3: A page of Hollard’s simplified policy document ................................................... 8
Figure 2.4: Steps of being insured ......................................................................................... 10
Figure 2.5: Portion of a marketing poster used by Compartamos in Mexico ......................... 12
Figure 4.1: Categories of central stakeholders in microinsurance in the Philippines .......... 26
Figure 4.2: Microinsurance logo ............................................................................................ 28
Figure 4.3: How policyholders feel about the amount of information they were given about insurance ......................................................................................... 29
Figure 4.4: Consumer recollection of events covered by insurance ..................................... 30
Figure 4.5: Consumer identification of benefit amounts ......................................................... 30
Figure 4.6: How policyholders learned about their insurance policy .................................... 31
Figure 4.7: Where policyholders would turn if they had a question about their insurance policy ........................................................................................................ 31
Figure 4.8: When policyholder thinks claim would be paid after submission ......................... 34
Figure 4.9: Policyholders’ expected strategies if a claim is denied .......................................... 35
Figure 5.1: Categories of stakeholders in microinsurance in Colombia ................................. 41
Figure 5.2: Government initiatives on microinsurance ............................................................. 42
Figure 5.3: Insurer perspectives of cost of complying with consumer protection regulation ........................................................................................................... 48
Figure 5.4: What insurers would do if consumer protection requirements were more flexible ........................................................................................................... 49
Figure 5.5: Sample of difficult-to-read policy document from Mapfre website ...................... 49
Figure 5.6: Insurer perspectives on current regulatory oversight related to consumer protection ........................................................................................................... 60
Figure 5.7: Insurers’ view of the expected future burden of consumer protection regulation ........................................................................................................... 60
1. Introduction

Low-income people face a vast array of risks, to which they are particularly vulnerable. The death of a breadwinner, an illness or accident, a fire or flood, or a poor harvest can all have devastating financial consequences. Insurance may play a valuable role in helping them to manage some of those risks, but only to the extent the insurance works. This working is at the core of consumer protection, and is essential to the ability of low-income consumers to effectively use microinsurance to manage the risks they face. Without it, insurance is just another risk.

This study explores challenges and good practices in consumer protection in microinsurance, with the aim of understanding the consumer protection needs faced by microinsurance consumers, the efforts of various stakeholders to address those needs, and the effectiveness of those efforts and how they fit together.

What is consumer protection?

“Consumer protection” is often defined in terms of fairness or by reference to the qualities that effective consumer protection will exhibit (such as transparency or prompt claims processing). For the purpose of this study, we take a broader view, defining consumer protection in microinsurance as the effective use of microinsurance products by low-income consumers to protect themselves against risk. This definition highlights the need for a coordinated approach in which regulators and supervisors, industry players, and consumers themselves all share the responsibility.

In our view, consumer protection challenges fall into four main categories:

- Education and information
- Product and process design
- Regulation and financial soundness of providers and programs
- Capacities and responsibilities of stakeholders

These four categories of challenges overlap in substantial ways, and all require efforts of multiple stakeholders to be effectively overcome. At the same time, there are tensions between the needs of different stakeholders and between the many necessary components of an effective consumer protection regime. We explore these tensions in depth throughout the study, as they tend to be where the difficult decisions and trade-offs occur.

What are the consequences of consumer protection?

“Consequences of inadequate consumer protection include not only further impoverishment and other hardships for low income consumers, but may also limit market expansion and profitability of products” (Wiedmaier-Pfister & Voss, 2013).

Effective consumer protection, by contrast, can have the immediate consequence of ensuring that consumers experience the risk protection benefits of microinsurance. As a result, it can also have the indirect consequence of engendering trust among low-income consumers, and ultimately expanding availability and coverage of microinsurance products, further enhancing the value of microinsurance to all stakeholders in the value chain.

How can we learn about consumer protection challenges and the effectiveness of consumer protection efforts?

Consumer protection challenges are manifested in specific issues that generally fall into one or more of the four categories mentioned above. As such, we have developed a “checklist” of conditions that an effective consumer protection regime should encompass. This paper explores the issues outlined in the checklist, drawing examples from different contexts around the world, with a focus on two countries (Colombia and the Philippines) through case studies. The broad range of examples is intended to show the breadth of consumer protection issues at stake and the reach of their implications. The case studies, by contrast, add depth and nuance and provide opportunities to explore how market considerations and the interplay among consumer protection issues and measures influence their effectiveness.

This report is structured as follows: Section 2 introduces the “checklist” of requirements that an effective consumer protection regime should meet and explores each of the issues outlined in the checklist, drawing examples from effective and ineffective approaches around the world and highlighting some of the many relevant tensions between consumer protection needs; Section 3 provides a brief introduction to the case study methodology for exploring consumer protection; Sections 4 and 5 summarize the findings of case studies in the Philippines and Colombia, respectively; and Section 6 concludes.
2. Issues in consumer protection

Consumer protection is a broad category encompassing a wide variety of components, all of which must be balanced to ensure that the ultimate goal of enabling consumers to access and effectively use microinsurance products that are appropriate for their needs is met. The checklist below provides an overview of the necessary components of effective consumer protection, following the four issues identified above: a) education and information, b) product and process design, c) regulation and financial soundness of providers and programs, and d) capacities and responsibilities of stakeholders. These components rely on the integrated efforts of stakeholders throughout microinsurance, including regulators and other government entities, industry associations, donors, insurers, delivery channels, and consumers themselves.

This section uses the checklist as a framework to explore each of these four issues in greater detail, drawing from examples of particularly effective (and some less effective) approaches to meeting the challenges they pose. We address each section of the checklist in turn, with attention throughout to the overarching concept of fairness to consumers, which is relevant to each of the more concrete issues. The examples that follow represent both some common and some particularly innovative approaches to consumer protection issues, but are not intended to provide a comprehensive picture of all consumer protection challenges that may arise or of all possible ways to address those challenges. The efforts highlighted below have met with varying degrees of success. Nonetheless, all can inform the efforts of other stakeholders in other contexts as they work to ensure that consumers have access to good, appropriate microinsurance products and are able to use those products effectively to protect themselves against risk.

One concern that arises repeatedly throughout the four categories is that of who the consumer is and how the relevant obligations and actions of other stakeholders relate to that consumer. Consumers include low-income people who have not yet enrolled but who consider purchasing microinsurance or receive information or marketing about microinsurance. Consumers can be policyholders themselves or certificate holders under group policies. Consumers can also be spouses or other individuals covered by a product that they themselves did not enroll in, or the beneficiaries of a microinsurance product. All of these people, at different stages, may require protection, but not all are always reached by legal obligations or by the efforts of other stakeholders.

Similarly, the identities of (and divisions between) other stakeholders are not always clear. Delivery channels, for example, include front-line staff that most often interact with consumers (e.g. loan officers or retail salespeople), as well as other staff (e.g. supervisors or human resources personnel) that may also play some role. Whether a separate delivery channel is employed or not, many tasks, including training, processing claims, and resolving disputes often involve both the insurer and delivery channel. Involvement of different stakeholders in different tasks may sometimes support more effective consumer protection, but it may also muddy divisions of responsibility, opening up possibilities for gaps in protection or even abuse.

Each of the four categories contains tensions that challenge consumer protection efforts. Perhaps the most common tension is between protection and the cost of that protection through measures required for training, disclosures to policyholders, reporting and supervision, procedural requirements, and other consumer protection efforts. Another is the tension between flexibility and appropriateness, on one hand, and simplicity and standardization on the other, arising in product design, documentation and disclosures, and channels for complaints and redress. These and other tensions lead to difficult tradeoffs between different elements of consumer protection, all of which should be considered before any one measure is relaxed, strengthened, or otherwise changed.

Finally, the relative roles and capacities of various stakeholders, explored in detail in Section 2.d, are relevant throughout the other three sections of the checklist. While the specifics of the division of roles will vary according to the context and capacities of the stakeholders within a particular country, it should generally follow the broad divisions outlined in Table 2.1. The ultimate goal is to achieve the appropriate balance between the roles and responsibilities of different stakeholders. In particular, finding this balance requires a careful consideration of the role of regulation in promoting consumer protection efforts and promoting market development and access to appropriate, effective microinsurance products. In all contexts, regulation plays an invaluable role in consumer protection efforts, but the extent of this role can and should vary greatly, according to the regulator’s capacity (and that of other stakeholders) and the particularities of the market and the consumer protection and other challenges it faces. While regulators and supervisors should generally play a “leading role” in supporting inclusive insurance markets [IAIS, 2012], which necessarily include determining effective consumer protection measures, issues of capacities and cost will often require this role to be shared with other stakeholders. In light of the newness of the microinsurance market, in actuality regulators may be “catching up” to market developments led by commercial insurers, donors or delivery channels. We explore this dynamic in Section 5 through our case study of Colombia. We also revisit the issue of balancing roles and responsibilities in our conclusion in Section 6.
Table 2.1: Relative roles and responsibilities

<table>
<thead>
<tr>
<th>Client</th>
<th>Delivery Channel</th>
<th>Insurer</th>
<th>Regulator/Supervisor</th>
<th>Donor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use the information and resources provided to them</td>
<td>Facilitate provision of transparent information to consumers</td>
<td>Offer products that aim to satisfy needs</td>
<td>Monitor activities from all perspectives (consumer, insurer, delivery channel)</td>
<td>Build capacity</td>
</tr>
<tr>
<td>Ask questions and follow up if they face a problem</td>
<td>Facilitate claims, problem-solving, and dispute resolution</td>
<td>Disclose relevant information</td>
<td>Ensure fairness of pricing</td>
<td>Share best practices</td>
</tr>
<tr>
<td></td>
<td>Protect clients' data and money as they manage its' transfer</td>
<td>Partner with channels that support these functions</td>
<td>Monitor unregulated insurance activity</td>
<td>Support monitoring initiatives</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Provide industry insights into consumer issues</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Issues in consumer protection
Consumer Protection Checklist

Education and Information:

☐ Consumers are provided the financial education and tools required to make a reasoned decision about an insurance purchase, to use insurance effectively as a part of the set of risk management strategies available to them, and to seek out additional information when necessary.

☐ Consumers receive the appropriate amount of product-specific information, at a time and in a manner that enables them to make decisions about the insurance, to understand their rights and obligations, and to use the product effectively (including maintaining and renewing the policy, filing claims, and resolving questions or problems when necessary).

☐ Staff of delivery channels and others interacting with microinsurance consumers have the appropriate training and support to inform consumers of their rights and obligations and to play their roles in delivering and servicing products effectively.

Product and Process:

☐ Products are appropriate to the clients to whom they are offered, in terms of the risks covered, the level of coverage, premiums, exclusions, and other product characteristics.

☐ Products are marketed and explained to consumers before enrollment in a manner that is transparent, not misleading, and provides sufficient and appropriate information.

☐ Advertising of microinsurance products explicitly identifies them as “insurance,” is not misleading, and these requirements are adequately supervised.

☐ Enrollment procedures are sufficiently clear, simple, and fair, and consumers are provided with sufficient information, disclosures, and documentation to use the product effectively.

☐ Consumers’ data and money are safeguarded sufficiently.

☐ Procedures for maintaining and renewing policies are accessible and appropriate to minimize the risk of an unintended cancellation or lapse in coverage, or in the case of automatic renewals, the risk of unintended continuation.

☐ Procedures and documentation requirements for filing and supporting a claim are as accessible, understandable, and flexible as possible, in light of the need to detect and prevent fraud and unauthorized claims.

☐ Consumers receive adequate and timely notification of approval and rejection of claims and of requests for additional documentation or information.

☐ Claims are paid in a sufficiently timely manner.

☐ Consumers have adequate and accessible opportunities to seek redress for denied claims and other problems or complaints, through internal and/or external channels.

Regulation and Financial Soundness of Providers and Programs:

☐ Where a separate regulatory framework applies to microinsurance, that term is defined appropriately to include products specifically targeted at low-income consumers.

☐ The financial soundness of insurance providers is sufficiently ensured through regulation and supervision.

☐ Reasonable safeguards exist to ensure sustainability of microinsurance programs, through balancing of regulatory obligations to protect consumer welfare and overall trust in the market with cost considerations.

☐ Parties involved in intermediation of microinsurance are subject to sufficient oversight.

Capacities and Responsibilities:

☐ The division of responsibilities for consumer protection, among regulators/supervisors, insurers, delivery channels, consumers themselves, and other stakeholders, is fair and reasonable, given the capacities and incentives of the various parties.

☐ Sufficient channels and safeguards exist to ensure accountability of all stakeholders for their respective roles.

☐ Where gaps or shortcomings exist in the abilities of stakeholders to meet consumer protection needs, effective efforts are in place to increase those capacities and the corresponding responsibilities over time.
a. Education and information

This brief discussion of education and information is part of a larger analysis of challenges and good practices in consumer protection in microinsurance. We explain each element of the Consumer Protection Checklist (appearing in blue text), highlighting interesting approaches to meet the challenges they pose, as well as potential concerns and tensions at stake.

Effective consumer protection is in large part grounded in a consumer’s ability to understand the insurance product and to make informed decisions about whether to purchase it and when and how to use it. Information and education can provide the tools consumers need to protect themselves against inadequate or inappropriate products and help them navigate the processes and challenges they may face in maintaining and using products. The ability to do so requires both product-specific information and broad financial literacy and capability, which is necessary in order to understand and use the product-specific information to make informed choices about products and to use those products effectively. In addition to information and education provided directly to clients, this category includes the information, education, and training given to those who interface with clients (for example, loan officers at microfinance institutions who enroll their borrowers in insurance).

Consumers are provided the financial education and tools required to make a reasoned decision about an insurance purchase, to use insurance effectively as a part of the set of risk management strategies available to them, and to seek out additional information when necessary.

The very phrase consumer protection perhaps insinuates that consumer protection should be an effort implemented toward consumers rather than with consumers. Effective consumer protection, however, should provide consumers with a framework that protects their rights, but also with the tools to make choices and advocate for these rights. Broad financial capability interventions, often through government efforts but also through private sector initiatives, can help low-income consumers to develop these tools.

Figure 2.1: Excerpt from “Familia Estou Seguro” booklet

The “Estou Seguro” financial education project in insurance, targeted to the low-income population in Brazil, has received widespread praise. This project was developed by initiative of the CNSeg, the Brazilian Insurance Confederation, in which 17 insurance companies, the insurance regulator (SUSEP), the insurance broker’s federation (FENACOR), and the National School of Insurance (FUNENSEG) participate. Instituto de Estudo do Trabalho e da Sociedade (IETS) was selected to execute the project. The project began with interviews and focus group discussions with low-income people in the favela of Santa Marta in Rio de Janeiro in 2010. This research revealed that 87% of the people interviewed had never thought about buying an insurance product, mainly due to cost and lack of awareness of the benefits of insurance. Building on this knowledge, the project used street plays, radio soap operas, radio spots on local radio stations and loudspeakers, samba songs contests about insurance and short movies to educate people in low-income neighborhoods (favelas). The content of the programs is restricted to basic knowledge about risk management and the programs mentioned that the “corretor de microsseguro” (microinsurance broker) can provide more specific information about available microinsurance products. A “Casa do Seguro” (the house of insurance) was set up in the favela of Santa Marta, with microinsurance brokers available to provide this information and sell the products. A year after the implementation of the project, there was a 16% increase in the number of people aware of insurance, and 72% of the participants of the program bought an insurance product, compared to only 50% of those within the same communities who were not reached by the campaigns (Fontes et al., 2011). The second phase of the project has already started and new

1 Low-income neighborhood.
printed material was included through a grant from the Inter-American Insurance Federation (FIDES) and the Inter-American Development Bank/Multilateral Investment Fund (IDB/MIF). One component of this printed material is the booklet “Familia Estou Seguro” (see Figure 2.1), which aims to create awareness of microinsurance and highlight the importance of providing informed consent.

CNSeg sees the involvement of community leaders and trusted community institutions through an ongoing dialogue as crucial to Estou Seguro’s success. This involvement helps to ensure that the messages are appropriate, the channels are accessible, and the lessons they teach are understood and trusted by the community. Clients and potential clients become familiar with insurance terms as well as the purpose of insurance, which should improve their ability to determine whether they want to purchase insurance but also to ask questions when buying an insurance product. Likewise, the active engagement of insurers in this program is crucial to opening opportunities to use the lessons the program teaches.

In Mexico, the Asociación Mexicana de Uniones de Crédito del Sector Social (AMUCSS) has developed a financial literacy training for clients of its partner institutions. AMUCSS is an NGO dedicated to improving financial services in rural areas of Mexico, and is comprised of a network of 65 rural financial institutions, each of which offers a distinct range of products and services. AMUCSS is organized into various teams working on different issues, with the Red Solidaria de Microseguros Rurales (RedSol), dedicated to issues in rural microinsurance. As part of a larger financial inclusion effort, AMUCSS uses financial education to connect consumers (existing clients of its member institutions) to the products and services that they are using. The goal of these trainings is to give participants the knowledge necessary to use financial tools in a way that will improve their living conditions, using examples of specific actions they can take to improve their financial situations. Each session is comprised of modules on issues such as family budgeting, savings, credit, money transfers and risk management and insurance.

The Risk Management and Insurance module (in effect since 2009) is designed to help participants (1) understand and distinguish between different types of risk, (2) pinpoint specific actions they can take when confronted with risk, (3) identify actions they can take to prevent risk, and (4) understand the role of insurance in preventing risk. The training lasts 2.5 hours, with one hour devoted to discussing insurance. The moderator shows participants a series of illustrations of situations and activities related to risk management and insurance (see Figure 2.2 below), facilitating discussion around responsible financial behaviors. At the end of the module, participants should have a complete understanding of the types of risks that confront their families and should be able to identify concrete actions they can take to mitigate these risks, including purchasing insurance.

According to Josh Ling, an ILO Microinsurance Fellow at AMUCSS, staff interview clients after the workshops to test their understanding of the concepts covered in the training and ask their intentions to purchase insurance. Participants seem to gain an understanding of the importance of these financial tools and are able to identify specific actions they intend to take in the near future. However, fewer people follow up by actually purchasing insurance than indicate that they will purchase it, suggesting that the workshops do not always effectively translate into sales, even among participants who intend to buy. It is possible that the absence of a clear connection between the broad education and the specific insurance products offered by the partner institutions contributes to consumers’ decisions not to purchase the product. Those who do purchase microinsurance also likely benefit from the broader understanding of how insurance works and the role it can play in managing risk. It is also possible that at least some consumers, using the education and information they gained through the training, made a reasoned decision that it was best for them not to purchase insurance: those consumers would also have benefitted from the training.
One crucial difference between the AMUCSS program (which increased understanding but not sales) and the Estou Seguro program (which did increase sales) is the existence of a connection between the general information and specific products. Clear connections between this general information and more product-specific information, as well as opportunities to purchase insurance are often preferable from the perspective of both the provider (who wants to sell insurance) and the consumer (who seeks practical applications of the general concepts they have learned), but this connection must be drawn in a responsible and non-misleading way, an issue we revisit in Section 2.b below (product and process design).

The Colombia case study in Section 5 discusses some of the challenges and trade-offs raised in both industry and regulatory efforts to provide this education and to ensure that its content is effective and appropriate. Regulatory attempts to set and enforce very specific standards on the content and format of education are likely to face significant challenges: few “best practices” exist and even where they do, they are difficult to enforce, especially where supervisory capacity is limited. Nonetheless, government can nearly always play some valuable role in consumer education. Where a clearly effective education approach has been identified and can be enforced, specific regulatory standards for education may be appropriate. Elsewhere, regulatory and other government bodies may play an important role in promoting insurance awareness and exploring what may be effective educational approaches in an effort to develop best practices.

Consumers receive the appropriate amount of product-specific information, at a time and in a manner that enables them to make decisions about the insurance, to understand their rights and obligations, and to use the product effectively (including maintaining and renewing the policy, filing claims, and resolving questions or problems when necessary).

A crucial attribute of this information is that it must be provided in a way that can translate to better understanding of the product and process. A comprehensive disclosure document is of little use to consumers who cannot read or understand it. Likewise, even a careful explanation of product features, delivered in a way that is accessible and clear to consumers, may not lead to lasting understanding of the product if that explanation takes place at a time when the client is too distracted by other concerns to retain the information. Our case studies of the Philippines and Colombia (Sections 4 and 5, respectively) highlight the challenges of ensuring that clients understand and retain the information they are given about insurance.
The insurer Hollard in South Africa has made some interesting advances on this issue. First, it has created a model of a microinsurance policy in simple, plain English. In addition, the most important features of the life insurance contract for products offered through the retailer PEP are communicated through pictures and in simplified, plain language (one page of which is reproduced in Figure 2.3). In the opinion of Mr. Freedom Buthelezi, Head of Retail for Hollard, the impact of such simplification on the understanding of low-income consumers has not been directly measured, but some barriers to understanding likely remain. Some Consumers of Hollard’s microinsurance products often have low levels of literacy and still prefer face-to-face distribution and verbal explanations. Nonetheless, the document still provides a helpful reference or reminder of coverage and procedures, even if the consumer who purchases it may have limited capacity to understand the disclosures and informational at the time of the purchase. To the extent it is made available before the purchase or during legally required cooling off period (described below), the policyholder can also consult a friend or family member to help understand it.

The tension between offering mandatory insurance products (which are often less expensive) and voluntary products can be exacerbated by concerns that mandatory products may not provide clients with the sufficient information to i) make an informed decision to opt out of the scheme that is providing the mandatory product or ii) understand how questions can be addressed or claims can be made. Offering clients information even when products are mandatory or bundled into other packages of financial services (such as savings, remittances, or credit) is important to ensure that consumers can benefit from the products at all. A MILK Project study of catastrophic insurance in Ghana suggested that clients were not well-informed of their mandatory coverage when a flood hit: the insurance payout was in many cases a surprise to clients (Magnoni, Chandani, & Zimmerman, 2012). However, a similar phenomenon occurred in Colombia even with a voluntary insurance product (Magnoni & Poulton, 2013). While clients recalled being insured they were extremely confused about the benefit that was due to them and often expected a payout that was very different from the one they received. This suggests that perhaps the nature (mandatory or voluntary) of the product may not be the defining factor in clients’ awareness, but a combination of factors influence their knowledge and assimilation of the product they buy and the benefit due to them. At a minimum, mandatory products should be explained, and any choices consumers have (including the option to “opt out” of the entire bundle) should be communicated to them. In Colombia, the government mandates that all loans should have credit-life coverage, but consumers are legally able to purchase this coverage from any source. While in practice, most low-income consumers who use microcredit buy this insurance through their microfinance institution, some (usually fewer than 5%) do opt to purchase it separately from a different insurer.

- **Staff of delivery channels and others interacting with microinsurance consumers have the appropriate training and support to inform consumers of their rights and obligations and to play their roles in delivering and servicing products effectively.**

Information, education, and training given to those who interact with consumers can support consumer protection efforts in two ways: first, by giving these individuals the tools needed to inform and educate consumers, and second, by improving their ability to represent and support consumers when challenges arise.
In addition to the financial education for consumers mentioned above, AMUCSS also conducts training for the rural MFIs and their personnel to ensure that they have a better understanding of the products and services they offer, including insurance, so they can better explain those products and services to their members. Trainings are geared towards front-line staff who have the most contact with clients, but are also attended by technicians, managers and directors of operations. They are conducted by a member of the AMUCSS financial education team, and cover a variety of topics such as client service excellence and how to prevent money laundering or fraud. The trainings last for about 1.5 days and happen two to three times per year, always in a different location to accommodate staff from MFIs in a variety of regions.

Training can be costly and time consuming. High staff turnover in many microfinance institutions and other delivery channels can also make this training costly, and with relatively low returns to investment. We turn to an example (also discussed in Section 2.b below) from a recent experiment with Compartamos Banco and the Microinsurance Learning and Knowledge (MILK) Project (Bauchet et al., 2013), where loan officers were trained to deliver scripted information about insurance (including basic product characteristics, and a sales “pitch” using a poster with key information. The trainings were held over two 3-hour sessions. While these were quite intensive, as they were tied to a randomized control trial, the result was suggestive of a strong outcome. Purchases of insurance by clients increased by about 15 percentage points, suggesting that offering training, when coupled with an effective marketing “pitch” that is closely tied to an expected sales outcome can have a positive return.

Technology can provide platforms for replacing or supplementing intensive in-person training. FINO Fintech, an Indian banking correspondent agency that works with agents selling insurance and other financial services, has developed a cost-effective mobile-based training module.2 This module has allowed FINO to reduce the duration of in-person training and to deliver ongoing support through updates about product and policy changes and answers to frequently asked questions. FINO tracks whether agents have downloaded the updates and is able to follow up with those who do not. Once downloaded, these updates remain available to agents even when they do not have mobile reception, so they can access them while interacting with consumers in the field.

b. Product and process design

This brief discussion of product and process design is part of a larger analysis of challenges and good practices in consumer protection in microinsurance. We explain each element of the Consumer Protection Checklist (appearing in blue text), highlighting interesting approaches to meet the challenges they pose, as well as potential concerns and tensions at stake.

As the ultimate goal of consumer protection is to enable consumers to use microinsurance effectively to protect themselves against risk, the right products are an essential element of consumer protection. Effective use of a product also relies on appropriate processes throughout a consumer’s experience with that product: from marketing and enrollment (and even before) to claims processing and resolution of problems. Each of these “steps,” detailed in Wiedmaier-Pfister & Voss (2013) (see Figure 2.4), involves processes that a consumer may need to navigate in order to effectively use the product. Not all steps apply to all consumers (those who choose not to purchase insurance will not progress beyond step one; those enrolled in mandatory programs will not choose a provider; and those who never experience an insured event will never need to make a claim), but all will become relevant to some consumers as they go through the process of having and using microinsurance.

Throughout these steps, there exists a tension between simplicity, cost, and flexibility, on one hand, and sufficiency of safeguards on the other. As a result, the most appropriate processes are not “one size fits all,” even within a given country, but require careful consideration of context and of the needs and capacities of the relevant consumers. We revisit the issue of capacities (including capacity-building measures) in Section 2.d below.

Products are appropriate to the clients to whom they are offered, in terms of the risks covered, the level of coverage, premiums, exclusions, and other product characteristics.

**Appropriate product design.** From the perspective of the insurer, consumer protection must begin with appropriate product design. If the microinsurance products themselves do not meet the needs of the consumers they are sold to, even the most carefully and fairly designed processes cannot allow consumers to use those insurance products effectively. Simplicity is often touted as a defining characteristic of microinsurance, and a key feature in ensuring that consumers can understand and trust the products they are covered by (e.g., McCord, 2012). However, efforts to simplify products too much may diminish their ability to respond to complex risk-management needs and/or increase their cost (for example, by avoiding all exclusions, even those that are simple and could result in substantial cost-savings for consumers without substantially diminishing their responsiveness to needs). Thus, perhaps the best goal of product design may be to be as simple as possible, in light of these other considerations. Product design should be informed by market studies and other research aimed at understanding 1) the risk management needs and demands of the target market, 2) their willingness and ability to pay, and 3) the capacities of target consumers to understand and use insurance.

Careful product design and attention to the tradeoff between simplicity and appropriateness are highlighted in the case of a life microinsurance product developed by INISER, Nicaragua’s largest insurance company. The company began by identifying a target market, in this case, informal sector workers. It worked with three potential delivery channels to assess the needs of their clients prior to determining a final product or negotiating an alliance with these channels. INISER worked with an outside consulting firm to determine client needs through qualitative focus group discussions. Women made up a large proportion of the target client base, and as such, a product was designed with women’s needs in mind. This took two important considerations into account: first, women’s liquidity was especially constrained, as they often had lower income than their male counterparts, and second, their concerns and preferences differed from those of men. One important concern that arose in the groups was that many clients, and women in particular, were concerned with the possibility of life insurance beneficiaries misusing funds and not channeling them to their families’ needs. To alleviate this concern, INISER entered into an alliance with a local supermarket that catered to low-income customers to issue monthly coupons to life insurance beneficiaries as one component of the benefit. Developing this product to target potential consumers’ needs allowed INISER to enter into an agreement with the largest microfinance institution in the country, Fondo de Desarrollo Local (FDL), which offers this voluntary product to its clients. The supermarket coupon benefit remains one of the most popular features of the insurance among clients. While the coupon benefit adds an element of complexity to the product, it also responds to client needs and demands.
**Matching consumers to the right products and protection against mis-selling.** Similarly, it is crucial that the right products be sold to the right consumers. This requires both promoting the availability of a range of products sufficient to meet the varied needs of different consumers and ensuring that those selling the products have the ability and motivation to consider consumers’ needs and to avoid mis-selling. While industry (including insurers and delivery channels) can play an important role in providing this protection by making the right products available and creating the right incentives for those who sell them, regulation may also have a role in avoiding mis-selling and enforcing providers’ responsibility to ensure the suitability of products to the consumers to whom they are sold.

Two regulations in India (one proposed) highlight examples of regulatory efforts to protect against mis-selling of insurance products. The first monitors renewal of life insurance policies. The Insurance Regulatory and Development Authority (IRDA) issued Guidelines for Individual Agents for Persistence of Life Insurance Policies that require individual agents to track the persistency ratio of the life insurance products they sell: the percentage of policies still in force 13 months after the initial sale, calculated on a premium basis as well as a policy basis. Renewal of an agent’s license is conditioned on meeting the required persistency ratio (through 2014, at least 50%, and for 2014-2015, at least 75%). The guidelines also require insurers to specify these stipulations in the agency agreements with their agents and to monitor agents’ compliance. This regulation applies to microinsurance sales by traditional insurance agents (which is uncommon), but not to sales by microinsurance agents, which have been intentionally excluded as the microinsurance sector grows. The IRDA is aware, however, of mis-selling that occurs in microinsurance sales and plans to implement similar persistency requirements for microinsurance when the sector is more developed. While such requirements may help to discourage mis-selling, care should be taken to avoid other, potentially adverse consequences, such as agents placing undue pressure on consumers to renew policies.

Another important consideration when implementing any requirement for renewals is the potential impact it may have on efforts to reach the target population in the first place. The many challenges of reaching the low-income market with insurance make it especially difficult to predict the problems that may keep low-income people from renewing policies and to combat those problems. In addition to microinsurance consumers’ lack of familiarity with and trust of insurance products and low capacity to pay, insurers often lack familiarity with these consumers and find it particularly difficult to predict their purchase and renewal behavior. One example can be seen in a proposed program in Colombia that was never implemented due to hesitation from insurers about a renewals requirement. The government of Colombia, through Bancoldex, the Colombian Development Bank, tried to solicit offers from insurance companies for a life insurance program for cash transfer recipients. The program involved initial subsidies that were to be gradually reduced over time. One requirement of the program was that insurers guarantee a relatively high percentage of renewals (50% after one year and 75% after two years) as the subsidy wore off. Insurers were concerned that they would not be able to meet this requirement, and many attribute the fact that no bids were submitted to this concern.

A second possible regulatory approach to minimize mis-selling is to require those selling insurance to explicitly consider consumer needs in a systematic way. India’s Draft Regulations for a Standard Proposal Form for Life Insurance require insurers, agents, and brokers to perform a “needs assessment” for consumers prior to selling life insurance. This needs assessment is based on information collected in a 3-page standard proposal form containing basic information about the prospective policyholder. The agent or broker must make “reasonable efforts” to determine the suitability of the product, and must have “reasonable grounds” to believe that the recommended product is suitable for the prospective policyholder. Insurers must establish supervisory procedures, train agents on needs analysis, provide all necessary inputs to brokers, and train anyone selling its products on the insurance products the insurer offers. This regulation applies only to individual policies; it does apply to microinsurance, though the IRDA is considering some modifications to make the needs assessment more appropriate for microinsurance consumers. While this process may be effective in matching consumers to the most appropriate products, such an extensive analysis may not be cost-effective for microinsurance products, given their small size and low profit margins, and may also be inappropriate for the non-traditional channels through which these products are often sold. A needs assessment or similar requirement, and the division of responsibility between the consumer and the party selling the insurance, should be considered in light of consumers’ financial capability and the education efforts discussed above.

- Products are marketed and explained to consumers before enrollment in a manner that is transparent, not misleading, and provides sufficient and appropriate information.
- Advertising of microinsurance products is not misleading and explicitly identifies these products as “insurance”, and these requirements are adequately supervised.

Marketing and advertisement are often the first exposure consumers have to product-specific information about the microinsurance products in which they enroll. For this reason, it is particularly important that the information contained in these materials and messages be clear, accurate, and not misleading. Similarly, it should be made clear to consumers that the microinsurance products that they are being offered are insurance.
Some argue that clear distinctions should be drawn between marketing, on one hand, and the provision of financial education and information on the other (e.g., Dror et al., 2011). The regulatory regime in Colombia takes this approach (see Section 5), as does the financial literacy campaign in the Philippines (see Section 4). There are compelling justifications for such an approach (including potential confusion and misalignment of interests). However, it is often difficult to draw this distinction in practice, particularly when the education and information are to be provided by those who have a financial incentive to sell insurance (for example, MFIs that receive commissions for insurance sales). Further, the effectiveness of both information and marketing may be enhanced by a combined approach: without an available product, consumers may not have an opportunity to use the education and information they receive, while without the education and information, they may not know when to purchase or be able to effectively use an insurance product. The MFI Compartamos Banco partnered with the Microinsurance Learning and Knowledge (MILK) project to experiment with two new marketing approaches for the life microinsurance product it offers to its microcredit clients. A base level of coverage is mandatory for borrowers and they are given the opportunity to purchase additional modules of coverage. One of the marketing approaches relied on a poster (pictured in part in Figure 2.5), which summarized typical costs of a funeral among the target population and explained the financing sources (loans, savings, "belt-tightening," etc.) used to cover them, showing where the insurance product might play a role. The poster also included some basic information about the terms of the product, and was presented to borrowers at group meetings before insurance enrollment. The study found that this factual or informative approach, providing a discrete lesson about a particular risk management need, was highly effective in increasing sales, and under some circumstances more effective in doing so than a more "emotional" marketing approach. In focus group discussions, borrowers emphasized the value to them of gaining information about the costs of a funeral and the role the insurance might play (Bauchet et al., 2013).

A related challenge involves determining the appropriate amount and type of information to disclose to consumers when products are marketed and sold. More information does not always translate into greater understanding. Indeed, disclosures can hinder understanding if they are too extensive or detailed, by overwhelming consumers and obscuring the most important details. In our case studies of the Philippines and Colombia (Sections 4 and 5), we find that efforts to explain products to consumers do not always translate into greater understanding. In determining the highest-priority information to emphasize in communications with consumers, it is useful to track and analyze the places where problems tend to arise. For example, high rejection rates for pre-existing conditions are likely a sign that consumers misunderstand these exclusions. Lower than expected claims for the death of the primary policyholder may indicate that beneficiaries are not adequately informed of the insurance coverage (and in turn, that the importance of informing beneficiaries is not made clear at the time of enrollment). Communications that focus on the most prevalent problems may in this way help to avoid the problem of overwhelming consumers with details about the product.

- Enrollment procedures are sufficiently clear, simple, and fair, and consumers are provided with sufficient information, disclosures, and documentation to use the product effectively.

Enrollment procedures and the related documentation requirements highlight an important consideration that arises particularly frequently in microinsurance: the "consumer" is not always the "client" or "policyholder." First, when microinsurance is delivered through group policies, the policyholder is often an MFI or other aggregator, and regulatory disclosure requirements for end consumers are often far less extensive. They may include a short
consumers is often left largely to the discretion of the insurer and the “policyholder” (delivery channel). Even when the policyholder is the low-income individual, the consumer who ultimately needs to file a claim is often a beneficiary who may never have been informed of the policy’s existence or told how to use it. While it is difficult to require direct disclosures to microinsurance beneficiaries at the time of enrollment, the importance of telling beneficiaries about the policy should be communicated to policyholders. Providing a product description or certificate that they can take home and share with their families may be very helpful in facilitating this communication (as described in the example of Hollard in Section 2.a above).

Another form of protection to help ensure fairness of enrollment procedures is through a “free look” or “cooling off” period during which the consumer may cancel the insurance contract after enrollment. Such provisions can help to overcome power and information imbalances between those selling insurance and the low-income consumers who may be confused or intimidated at the time of sale.

A cooling-off period may be mandated by law, as in the case of South Africa, which has a statutory requirement that insurers include a cooling-off period in the insurance contract. A policyholder may cancel the insurance transaction within 30 days of receipt of the policy summary (provided no benefit has been paid or claimed). The insurer Hollard has implemented such cooling-off periods in the voluntary microinsurance products that they offer. Such periods vary from between 30 (for credit life) and 60 days (for simple life). These cooling-off periods are communicated expressly by the distribution channel (most commonly face-to-face sales, agents and call centers) when explaining the product at the moment were the insurance contract is entered into. These periods are also communicated in the policy and certificates issued to consumers. Mr. Freedom Buthelezi, Head of Retail for Hollard, indicated that consumers of Hollard’s microinsurance products do take advantage of the cooling off periods, he could not provide details to us of how often or by whom they are used. Primary reasons for exercising this right are lack of affordability and mis-selling. In the event the consumer makes use of his right to terminate the contract during the cooling-off period, Hollard refunds the premium, if it was paid upfront. In the opinion of Mr. Buthelezi, these cooling-off periods work strongly in favor of the consumers because they have the opportunity to think about their purchase and understand the insurance product bought before the purchase decision is truly “final.”.

- Consumers’ data and money are safeguarded sufficiently.

Discussion of challenges in microinsurance often focuses on the lack of comprehensive or accurate data about consumers to design products or predict their purchasing or claims behavior. However, consumers who enroll in microinsurance programs often share personal information about their financial and health status, and it is important to ensure that sufficient safeguards are in place to protect those consumers from unnecessary disclosure of that information. Similarly, marketing efforts that tap into client databases of utilities, mobile phone operators, and other service providers may be invasive. Appropriate measures must also be in place to protect consumers’ money as it is transferred among the insurer, delivery channel, and consumer, both the premium payments they submit and the insurance benefits they may get after making a claim.

In developing these measures, it is important to keep in mind the data and money protection concerns that are most pressing to microinsurance consumers. In some cases, it may be that consumers are most concerned about protecting insurance benefit payments from their family members who might misuse those benefits, which may require flexibility in who can be named as a beneficiary or in the form that benefits take. Consumers may also be particularly concerned about disclosing private information to family members (for example, sharing information about doctor visits with their spouses). These concerns are quite different from those of securing data and money from those outside the consumers’ immediate family or social circle, but should also be taken into consideration when designing products and processes.

Providing consumers with information about disclosure practices can offer some protection, in particular where there are common practices of sharing or selling customer databases with third parties who intend to market or solicit from these consumers. However, these requirements must be implemented with care as they might be impractical or costly to implement through existing channels for delivering microinsurance. In Colombia, the government proposed a “Habeas Data” clause to existing financial norms in an attempt to protect consumers from unauthorized disclosure and use their data. One Colombian insurer noted that the proposed norms were perceived to be excessively burdensome by insurers who would be required to obtain a signature from clients acknowledging that their information would not be shared. In turn, the Colombian Insurers’ Association, FASECOLDA, notes that it is not a practice among insurance companies in Colombia to share data. As such they have been working in collaboration with the authorities to define appropriate legislative responses to concern about data disclosure.

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3 The case study on Colombia in Section 5.b.ii offers another example of a required cooling off period.
5 Ledesma et al. (2012) notes the importance of these concerns to low-income consumers in the context of other financial products.
Procedures for maintaining and renewing policies are accessible and appropriate to minimize the risk of an unintended cancellation or lapse in coverage, or in the case of automatic renewals, the risk of unintended continuation.

Where products are voluntary and consumers must make out-of-pocket premium payments, there is a risk of involuntary lapse of the policy if a consumer misses a payment due to liquidity constraints or simply because they forget. Adequate safeguards must be in place to minimize this risk. Such safeguards may take the form of notices when a payment is due (or late) and/or grace periods during which policies remain in force after a late payment. While regulation that requires insurers to give notices or implement grace periods may be useful, here again it is important to keep in mind who the “client” is who is protected by such regulation.

Regulation in Mexico requires that insurance policies have a grace period of at least 30 days for the payment of the premium. Non-payment of the premium after that period will lead to the termination of the contract. We spoke with the Director of Microinsurance for a large Mexican insurer about the impact this regulation has for microinsurance consumers in Mexico. Many of this insurer’s microinsurance arrangements are through MFIs and other delivery channels, but are still individual rather than group policies, and this grace period applies in practice to the payment from low-income consumers to the delivery channel. These delivery channels are then required (pursuant to their contracts with the insurer!) to pay these premiums over to the insurer within 15 days after the end of each accounting month. In the case of credit life policies, the MFIs rather than the consumers themselves are the policyholders, and as such the grace period does not apply to the end consumers. In such cases, in the event that the consumer does not pay the premium to the MFI, the MFI will normally pay the full premium to the insurer in order to be sure that it will receive compensation in the event of a loss. As such, consumers are generally protected against cancellation of their policies for a late or missed payment, but this protection results from the delivery channel’s incentives rather than from the regulation. Though in the insurance products that have a validity date of less than a year, the grace period will be adjusted proportionally to the validity of the contract.

Another measure that can prevent involuntary lapse of coverage is an automatic renewal feature, through which a consumer is re-enrolled in the microinsurance program without taking any affirmative steps (such as completing a renewal form or submitting a payment). These features can be useful from both the provider and the consumer perspective, but must be designed carefully to ensure that consumers understand that coverage is continuing and have a clear option to opt out of the continuation. Our Colombia case study provides an example of how these automatic renewal features can work in practice and some concerns they may raise (Section 5.b.ii).

Procedures and documentation requirements for filing and supporting a claim are as accessible, understandable, and flexible as possible, in light of the need to detect and prevent fraud and unauthorized claims.

Where microfinance or other financial institutions serve as delivery channels, they often play a role in claims management. However, this role can become burdensome for loan officers, who are compensated with commissions for selling loans and possibly for selling insurance, but not for claims handling. The resulting tensions can lead to delays in claims processing that reduce the insurance product’s value to consumers, and can also make the process unsustainable for the delivery channel. At the same time, consumers are often ill-equipped to navigate this process on their own, and these delivery channels are often in a uniquely appropriate position to facilitate claims because of their ongoing relationships with consumers. Further, distribution arrangements (and the commissions received by delivery channels) typically contemplate delivery channels playing a substantial role in servicing claims, although individual loan officers typically are not compensated separately for this component. One approach that might incentivize loan officers to dedicate more time and energy to this area is tying incentives to service in addition to sales. Insurers can minimize the burden (on both consumers and delivery channels) of making claims by streamlining processes and requiring minimal documentation. However, some paperwork and documentation is necessary to prevent fraud.

In one of the first documented microinsurance programs with a microfinance institution, the insurer AIG suffered from these tensions in Uganda. The result was long delays in payment of claims when loan officers had to facilitate their processing, even though the MFIs charged substantial administration fees (McCord et al., 2005). Authors of a case study of this program suggested that designating a staff person to focus on the insurance product could help to ensure that claims are processed and paid with minimal delays (Ibid.).

Here again, the tradeoff between simplicity and appropriateness in product and process design emerges. A particularly clear example of this tension can be seen in agricultural and property insurance. Simple index-based microinsurance products often involve very minimal documentation requirements, as the insurance benefit is tied to the performance of an index and not to any actual loss suffered by the beneficiary, and claims can be processed quickly and cheaply. However, these products can often fail to respond appropriately to consumers’ needs when a
financial shock occurs. In Haiti, the MFI Fonkoze offered a more complex property insurance product intended to respond more directly to its clients’ needs, combining a simple index-based product with a limited assessment of damages. A study of this product found long delays in claims payment of 50 days on average, in large part related to performance of the assessment (Magnoni & Budzyna, 2013).

The use of call centers has become an increasingly common way to support consumers with claims, particularly when microinsurance is sold through non-traditional delivery channels (such as retail or non-bank correspondents) that are unable to offer in-person support with claims. Further technological innovation promises to facilitate and improve the agility of claims payment without sacrificing the prevention of fraud. Some insurers, for example, have been experimenting with electronically selecting random samples of claims to validate or selecting only claims above certain thresholds. Where collecting required documentation involves interacting with third parties (such as government bodies or service providers) that may be inaccessible or unresponsive to consumers’ requests, insurers and/or delivery channels may play an important role in facilitating this interaction or even directly requesting the documentation on behalf of the consumer. The insurer SegurCaixa offers a microinsurance product to migrant workers in Spain that covers repatriation of the worker’s body to his or her home country. Because beneficiaries typically do not reside in Spain, it is often difficult for them to gather the necessary documentation (including the death certificate). In these cases, SegurCaixa works directly with the deceased’s consulate to gather the documentation after being informed of the death (Powers et al., 2011).

- Consumers receive adequate and timely notification of approval and rejection of claims and of requests for additional documentation or information.
- Claims are paid in a sufficiently timely manner.

Timing is particularly important for low-income consumers, who have little capacity to wait for a decision and/or payment from an insurer while weathering the impact of a financial shock. Delays in payment of claims can in some cases severely reduce a product’s value to consumers, as they are forced to turn to more costly or difficult financing strategies to bridge the gap before receiving the insurance benefit (Magnoni & Budzyna, 2013; Magnoni et al., 2012). Microinsurance regulations often attempt to respond to this need by requiring insurers to notify consumers of the decision and/or pay claims within a short specified time period after the claim is submitted (see Table 2.2). The effectiveness of these regulations depends, however, on the supervisor’s capacity to enforce them. Where enforcement capacity is low, their value to consumers may be limited. However, even in the absence of rigorous enforcement from the supervisor, such regulations can be effective in clear standards and expectations. For example, in the Philippines we find that delivery channels and even consumers themselves are aware that insurers have an obligation to pay claims promptly, and put pressure on insurers to do so. While partially responsive to consumers’ needs, such regulations are alone not sufficient to ensure that consumers are able to receive microinsurance benefits promptly after filing claims. Prompt payment after filing a claim is inadequate if a delivery channel delays in submitting a claim for the consumer or in forwarding the benefit payment, if an insurer has unnecessarily onerous documentation requirements that take consumers a long time to meet, or if a hospital or other service provider is unresponsive to requests for documentation. Monitoring the full length of time between the insured event and the consumer’s receipt of the payment, as well as the timing and reasons for delays and other problems, can be a first step to understanding and addressing all sources of delays.

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6 This “basis risk” is manifested when a policyholder suffers a loss (such as a poor harvest) but receives no insurance benefit because the relevant index (such as a certain amount of rain, measured through a rainfall gauge) was not triggered. It may also occur in the other direction, when a benefit is paid according to the index, but no or minimal loss was suffered. Basis risk is one of the predominate challenges faced by many agricultural insurance programs.
Table 2.2: Timing requirements for notification of decisions and payment of claims

<table>
<thead>
<tr>
<th></th>
<th>Notification of decision</th>
<th>Payment of approved claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philippines</td>
<td>None.</td>
<td>Within 10 working days upon receipt of complete documents by the provider.</td>
</tr>
<tr>
<td>CIMA (West and Central Africa)</td>
<td>Insurer must approve or reject within 7 days after receipt of claim. If rejected, the insurer shall notify the insured or the beneficiary in writing and shall specify the grounds for rejection.</td>
<td>Accepted claims must be paid within 10 days after receipt of the claim.</td>
</tr>
<tr>
<td>South Africa</td>
<td>In the event it denies a claim, the insurer must provide an explanation of the reason for denial within 10 days.</td>
<td>48 hours after the insurer received all the requisite documentation; claims may be paid in installments if this was provided for in the contract.</td>
</tr>
<tr>
<td>Guatemala</td>
<td>None.</td>
<td>Within 10 business days.</td>
</tr>
</tbody>
</table>

Sources: Insurance Memorandum Circular (Philippines) 1-2010; Camargo & Montoya (2011); Gibson (2011); The Inter-African Conference on Insurance Markets (CIMA), Regulation modifying and completing the Insurance Code of the Member States of CIMA, Department of National Treasury (South Africa), Notice No. 1213, Variation of policyholder protection rules (short-term insurance), 2004.

Consumers have adequate and accessible opportunities to seek redress for denied claims and other problems or complaints, through internal and/or external channels.

The appropriateness of a channel for complaints depends in large part on the characteristics of the relevant microinsurance consumers, the channels through which products are distributed, and the types of complaints likely to arise. These problem and dispute resolution channels may be internal and/or external. They should typically begin internally, with the insurer or delivery channel, with the possibility that they be elevated or that an external resource be available if the problem is not resolved internally.

South Africa’s Financial Services Ombuds Schemes Act (2004) governs the statutory Financial Advisory and Intermediary Services ombud that adjudicates market conduct complaints cases, and the voluntary, self-funded insurance ombuds that adjudicate complaints of violations of the Insurance Acts. While Gibson (2011) describes the system as “effective,” and notes that low-income consumers do access it, it is also complicated. Consumers are sometimes confused about which of the ombuds can or should be used, and there is some concern that the voluntary ombuds are not sufficiently independent of insurers. Again, however, the tension between cost and protection arises: “while acknowledging the shortcomings of the voluntary ombud system, policy makers are cognisant of challenges of funding and operating efficiencies for statutory ombuds” (Gibson, 2011). A parallel measure that Gibson notes has improved the effectiveness of the ombuds vehicle is the obligation that insurers, when they deny claims, provide an explanation of the reasons for denial. This has helped consumers who use the ombuds system to take advantage of this tool more effectively, as they have the facts needed to make a more specific complaint (Gibson, 2011).

Any complaints mechanism is only effective to the extent that consumers actually know about it, trust it, and use it (see Colombia case study in Section 5.b.ii below). Microinsurance consumers may need additional support in being made aware of these tools or in being encouraged to use them, and in some cases may require tools that are better-tailored to their needs than traditional complaints and dispute resolution channels are. They may be less likely than their higher-income counterparts to seek out a dispute resolution resource if it is not explained to them or if it is costly or time-consuming to access. They may also be less confident in their ability to use it, particularly if they have low levels of literacy or little experience with a technology that the resource relies on. Tracking complaints by microinsurance consumers can be a useful means of identifying these problems: if complaints are uncommon among microinsurance consumers (or among a subset of microinsurance consumers such as women, the elderly, or those in rural areas), it is likely that the available dispute resolution resources are inaccessible in some way. Although still in its nascent stages, the alternative dispute resolution [ADR] framework being developed in the Philippines (see Section 4.b.ii) may be an effective means of both bringing these processes geographically closer to consumers and making them simpler to navigate.
c. Regulation and financial soundness of provider and program

This brief discussion of financial soundness is part of a larger analysis of challenges and good practices in consumer protection in microinsurance. We explain each element of the Consumer Protection Checklist (appearing in blue text), highlighting interesting approaches to meeting the challenges they pose, as well as potential concerns and tensions at stake.

Financial soundness includes protection of consumers from financially unstable providers and from unsustainable programs. Regulation, coupled with effective supervision, plays an important role in providing this protection. Again, however, a tension arises between cost and protection. A proportionate regulatory regime must strike a balance between protecting consumers from unstable providers and programs, often through product approval, provider licensing/registration, and reporting requirements, and promoting the availability of microinsurance by limiting burdens on providers and delivery channels and barriers to entry. It must also consider the role of regulation in market development, for example by promoting trust in insurance. While implementing a separate regulatory regime for microinsurance may be helpful in some contexts to facilitate and encourage more the widespread offer of microinsurance products while addressing some of the unique needs of microinsurance consumers, it may not always be desirable or effective, particularly in places where it is difficult to distinguish between microinsurance and “mass market” or other insurance products that are offered to both low-income consumers and a broader client base. We discuss this issue further in the Colombia case study (Section 5).

☐ Where a separate regulatory framework applies to microinsurance, that term is defined appropriately to include products specifically targeted at low-income consumers.

The International Association of Insurance Supervisors (IAIS) defines microinsurance as “the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved.” While this definition is useful in understanding broadly what microinsurance is and what its goals are, if a country is to have regulations applying specifically to microinsurance, that term should be clearly and specifically defined (Ingram & McCord, 2011). It is common for such definitions to refer to maximum premium and/or benefit amounts (see Table 2.3 for several examples).

The need for specificity must, however, be balanced against the desire to encourage and facilitate the provision of microinsurance products. Peru provides an example of an evolving regulatory framework intended to encourage market growth by relaxing the regulatory definition of microinsurance. The initial regulation, established in 2007, defined microinsurance in terms of maximum monthly premium (USD 3.30) and maximum cover (USD 3,300), as well as a number of other substantive requirements of the insurance coverage and policy document. Approval of the supervisor was required before products could be sold. The initial microinsurance regulations, however, did not spur the anticipated volume of activity from insurers, and in 2009 the limits on benefits and premium were lifted and other requirements were relaxed (Chatterjee, 2012).

☐ The financial soundness of insurance providers is sufficiently ensured through regulation and supervision.

It is often appropriate for prudential regulations to be relaxed for microinsurance operations, where the risks are lower (IAIS, 2012), and this can facilitate the provision of a broader range of microinsurance products by a broader range of providers, often at lower cost. However, the needs for prudential regulation depend greatly on the actual risks at stake, which can vary greatly by context.

In countries with microinsurance-specific regulations, it is common for entities offering only microinsurance to be subject to lower capital and reserve requirements and expanded definitions of admitted assets (used to measure solvency). The appropriateness of these regulations depends on the risks associated with the products being offered. Regulatory definitions of microinsurance may limit risks by placing a cap on benefits, for example in the Philippines (Section 4.b.iii) and South Africa (Table 2.3 above), and can be one way of helping to ensure that the lower prudential requirements remain proportionate to the size of the risk faced.

Financial soundness measures should also consider the extent to which activities of unlicensed insurers should be permitted, as well as how best to discourage unlicensed activities that are not permitted. Historically, microinsurance operations were in many contexts carried out by informal insurers, often MFIs, health service providers, funeral homes, or others already providing services to a low-income client base. As the availability of formal microinsurance products has increased, regulators have made parallel efforts to minimize the provision of microinsurance by these informal providers (see the Philippines case study in Section 4 for an example). Generally, informal insurance should be avoided, and “all entities that act as insurers should be subject to licensing,” though in some jurisdictions it may...
be appropriate to exclude certain activities from the definition of “insurance” in order to facilitate access to these products (IAIS, 2012). However,

“Enhancing inclusive insurance markets should not create a system where customers have increased access but only to products and services that are of a materially lesser quality. The products and services delivered should not have an unacceptable probability of not delivering the promised benefits.”

[IAIS, 2012] In Guatemala, the Superintendence of Financial Institutions recently prohibited service providers, including health service providers and funeral homes, from offering prepaid plans. The justification for this restriction was that service providers do not have the financial adequacy to take risks and that they are not adequately supervised in this area. While it is likely to protect consumers from contributing to schemes offered by unregulated providers, this regulation inevitably increases the cost of the products as they must now be subject to the additional administrative costs of the insurer. Additionally, formal insurance arrangements require alliances between service providers and insurers, which can add to the complexity and cost of products. While it does not seem to have been the case in Guatemala, these sizeable additional costs could in some contexts also discourage providers from offering them. These are complex trade-offs that are best considered on a country-by-country basis depending on the maturity of the insurance market and its ability and willingness to offer these types of insurance products effectively and efficiently.

Reasonable safeguards exist to ensure sustainability of microinsurance programs, through balancing of regulatory obligations to protect consumer welfare and overall trust in the market with cost considerations.

One check that may help to ensure sustainability is a requirement that the insurance supervisor approve products prior to their offer to consumers, as this gives the supervisor the authority to reject products that it determines are unsustainable or inappropriate. The effectiveness of such prior approval requirements, however, depends on the

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Table 2.3: Regulatory definitions of microinsurance: Premium, benefits, and approval requirements

<table>
<thead>
<tr>
<th>Premium levels</th>
<th>Benefits</th>
<th>Approval</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Peru (current)</strong></td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td><strong>Peru (through 2009)</strong></td>
<td>Premium limit USD 3.30 per month</td>
<td>Coverage limit USD 3,300</td>
</tr>
</tbody>
</table>
| **South Africa (proposed)** | No premium limits, but initial pricing and subsequent price changes must be approved by an actuarial technician | Maximum benefits:  
  - R100,000 (USD 11,240) per person, per insurer, per contract period for all insurance on assets only  
  - R50,000 (USD 5,620) per insured life, per insurer for any insurance related to a death event  
  - R50,000 (USD 5,620) per insured life, per insurer for all other risk events | File and use; insurers must submit all new microinsurance products to the supervisor for review at least 60 calendar days before launching |
| **Mexico** | Maximum premium: for property insurance, 1.5 days of the general minimum wage applicable to the Federal District (SMG) (USD 7). | Maximum benefits:  
  - for individual insurance, four times the SMG (USD 6,840)  
  - for group insurance, three times the SMG (USD 5,130) | File and use |

Sources: Camargo & Montoya (2011); Chatterjee (2012); Wiedmaier-Pfister (2010)

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<sup>8</sup> However, prior approval is required for “personal, massive, and mandatory insurance products,” and it is common for products that are targeted to the low-income population and have the characteristics of microinsurance to fall into this category, rather than being qualified as “microinsurance” products. Reglamento de Transparencia de información y contratación de Seguros (Resolution 3199/2013).
capacity of the supervisor to evaluate products, and must be balanced against the potential delay and administrative burden on the supervisor and insurers as well as the possibility that they might discourage activity or innovation in the market. We spoke with the CEO of an insurance company in Vietnam, who told us that the company had been enthusiastic about entering the microinsurance market (for which a separate regulatory framework was recently developed), and developed two proposed products. After experiencing difficulties in getting these products approved, the company abandoned its efforts and currently does not offer any microinsurance products. Product approval requirements might also in some contexts discourage innovation, as insurers try where possible to use existing products (or product components) rather than going through the expense and delay of having new products approved, though consumers could benefit from more innovation. To minimize delays caused by product approval requirements, some countries have established specific time frames within which the supervisor must provide an opinion on a product to ensure a timely turn around (for example, Guatemala requires an opinion within 60 days of submission). Other countries, including Peru, South Africa, Mexico, and Colombia, adopt a more lenient “file and use” approach that requires insurers to file new products with the supervisor but does not require prior approval before they are offered to consumers (see Table 2.3 above).

The involvement of intermediaries in microinsurance is subject to sufficient oversight.

With respect to intermediation arrangements, it is particularly important to balance the need for oversight against access considerations. Microinsurance is quite often most successfully distributed through channels that are very different from those used to deliver traditional insurance. Indeed, these channels may also have a unique capacity and strong incentives to represent the interests of consumers at various stages of their experience with microinsurance, as we find in the Philippines case study below (Section 4.b.ii).

While oversight is typically viewed as the domain of the supervisor, industry may also play an effective role in providing a check against abuse or poor performance of intermediaries. In Vietnam, insurers have developed an Agent Management Program that cross-checks agent names against policy sales. The software tracks the three year performance of agents, and their arrangements are cancelled “if they are found indulging in illicit operations and they would not be recruited by another insurance company for the next three years” (Jain, 2011). By December 2006, the system had identified a black list of 1,680 agents who were guilty of breaching insurance regulation (Ibid). Agents are “blacklisted” by the Vietnam Insurance Association if they are found to represent different insurers at the same time, give poor advice on policies to consumers, mislead consumers by promising discounts or coverage that are beyond the scope of the contracts, collect premiums but not transfer them to the insurer, or forge a consumer’s signature, the information provided and/or the clauses of the policies. While an effective method for monitoring agent performance, the applicability of this system to microinsurance sales is limited, as it applies only to traditional insurance agents. A CEO of a life insurance company in Vietnam that uses the Agent Management Program, confirms that this software is useful, but only one measure that can be used to monitor the activities of the agents. For example, call centers that contact the prospective client in order to separately verify whether the product is needed can be used to cross-check the information provided by the agent.

Where delivery channels are subject to prudential or market conduct supervision by other authorities, for example by the Superintendence of Banks or financial institutions, some oversight and transparency is inherent. These institutions typically submit audited financial statements and their interaction with consumers is often subject to some degree of supervision. Non-traditional channels such as retail outlets or money transfer agents are often subject to very little oversight and may require more active oversight and management, at minimum from insurers and potentially also from regulatory authorities.

Regulations that hold providers (insurers and/or delivery channels) responsible for the actions of those who act on their behalf can play a critical role in consumer protection. Often, these parties are in a better position than supervisory bodies to monitor the activities of the individuals who interact directly with consumers, to create incentives for these individuals to follow protocols and treat consumers fairly, and to sanction those who do not.
d. Capacities and responsibilities of various stakeholders

This brief discussion of capacities and responsibilities is part of a larger analysis of challenges and good practices in consumer protection in microinsurance. We explain each element of the Consumer Protection Checklist (appearing in blue text), highlighting interesting approaches to meet the challenges they pose, as well as potential concerns and tensions at stake.

This broad category involves the relative capacities of various stakeholders, including insurers, delivery channels, meso-level organizations (including industry associations), macro-level institutions (such as governments and international donors/promoters), and consumers themselves to meet the consumer protection challenges described above. It considers the current division of responsibilities among these parties and its effectiveness in ensuring that consumers are able to make effective use of microinsurance products to protect themselves against risk. However, the division is not static: it should be viewed as a phased process of progressively increasing the capacities of various stakeholders and adding additional consumer protection measures in parallel.

The division of responsibilities for consumer protection, among regulators/supervisors, insurers, delivery channels, consumers themselves, and other stakeholders, is fair and reasonable, given the capacities and incentives of the various parties.

Ultimately, a number of parties must all bear partial responsibility for consumer protection, and the division of responsibilities must depend on the parties’ capacities and incentives, which may need strengthening and will require that clear incentives be set and efficient controls be put in place. Consumers are likely to have low literacy levels, and simplification of disclosures can make them more understandable, but consumers may still require a greater level of support from intermediaries. The incentives and goals of intermediaries, however, may not always be aligned with the needs and choices of consumers, and as a result enhancing the ability of consumers over time to advocate on their own behalf can improve protection (see below). Insurers are often unfamiliar with the low-income market’s needs, and may not be equipped to design appropriate products or enrollment procedures without support from those who have more experience working with the target consumers. The capacity of the supervisor to enforce consumer protection measures may also be limited in terms of time, information, money, and/or expertise.

The new proposed regulatory framework in Ghana provides an interesting example of an effort to shift responsibility for one element of consumer protection to private insurers, while at the same time enabling flexibility and creativity. Rather than employing a qualitative definition of “microinsurance” (which can be too vague and subjective for a legal definition) or a quantitative definition (which can be unnecessarily restrictive in some cases and broad enough to include insurance products that are not really “micro” in others), the new regulations will allow insurers to designate microinsurance products at their discretion. This flexibility carries with it a responsibility on the part of the insurer to carry out an assessment to ensure that the product meets three criteria:

- “it is designed and developed with the intention of meeting the needs of, and being marketed and sold to, low-income persons generally, specific types or descriptions of low-income persons, or low-income persons in a particular geographic area;
- the premiums charged under the insurance policy must be affordable for those low-income people for whom it was designed and developed;
- the insurance contract must be accessible to those low-income persons for whom it was designed and developed.”

After designating a product as “microinsurance,” the insurer must file details of the product and the assessment mentioned above, and may start using it after a period of four weeks unless the supervisor objects (Ghana Market Conduct [Microinsurance] Rules, 2013). This shifts the responsibility of determining and justifying the appropriateness of the product to the insurer, taking a burden off of the supervisor and placing it with a party that is, at least in some cases, more likely to have “the necessary knowledge, expertise, or experience” (Andoh, 2012).

Under the proposed regulatory framework, microinsurance products may be distributed through certain unlicensed channels (including MFIs), and are subject to more lenient prudential regulation. Microinsurance classification also carries with it several special consumer protection requirements, including a requirement of “clear and straightforward language, with minimal use of legal and technical language” in the insurance contract and a requirement that claims be paid within ten days (Transitional Microinsurance Framework Explanatory Note).
Sufficient channels and safeguards exist to ensure accountability of all stakeholders for their respective roles. and

Where gaps or shortcomings exist in the abilities of stakeholders to meet consumer protection needs, effective efforts are in place to increase those capacities and the corresponding responsibilities over time.

The capacities of different stakeholders to meet consumer protection needs and the corresponding responsibilities should be viewed as constantly increasing over time, and adequate steps should be taken to ensure that they do so. As mentioned above, central to any consumer protection effort is the capacity of the consumer to take advantage of the products and processes that are in place and to advocate for herself where those products and processes fail to meet her needs. Education and training efforts such as those mentioned in Section 2.a can be instrumental in increasing consumers' capacities.

One important channel for increasing capacities is through requirements for formalization of the roles of various stakeholders and processes in microinsurance. Recent regulatory developments in Brazil provide an excellent example of this formalization through a set of regulatory standards adapted to the particular needs of microinsurance providers, delivery channels, and consumers, but also highlight some potential concerns with a regulatory approach. A category of specific microinsurance insurers ("microseguadoras") with reduced capital requirements was created, and "corretores de microseguro" were introduced as a new category of intermediaries (individuals or entities) who are legally authorized to collect premiums and promote microinsurance contracts.9 The regulator issued circulars clarifying the roles and responsibilities of 1) the "policyholders" that maintain a relationship with the insured group by way of a group/collective contract and 2) "correspondentes de microseguro" who act as intermediaries on behalf of insurers. Both have ongoing responsibilities to assist consumers throughout the term of the contract. [Camargo, 2012; regulations issued by the Superintendence of Private Insurance of Brazil (SUSEP)10]. While these regulatory developments may be effective in increasing the ability of delivery channels to meet consumer protection needs (through training and oversight), they may also reduce access to microinsurance products to the extent that some delivery channels are unable or unwilling to meet the regulatory requirements. While such a sacrifice in availability of microinsurance may be warranted, it should at least be considered when more rigorous regulatory requirements are being explored or developed. At the same time, the ability of the supervisor to enforce formalization requirements and effectively oversee the role of these parties must also be considered.

The case of the Philippines [Section 4 below] highlights another example of how regulatory developments, when combined with other efforts, can increase the capacities of various stakeholders to ensure effective consumer protection.

Capacity-building efforts can be greatly enhanced by efforts [which may be initiated by industry or regulators] to monitor performance in the area of consumer protection. A number of financial and social Key Performance Indicators (KPIs) are directly relevant to consumer protection [see Table 2.4]. By tracking performance, insurers can develop a better understanding of where consumer protection needs are met and where challenges remain. The KPIs are limited in their ability to explain why a particular problem may be occurring, but are useful in raising red flags that warrant further attention. The knowledge gained through monitoring efforts can inform capacity-building efforts throughout the value chain. Public reporting of these or other indicators, which may be mandated by regulation, could further increase their ability to provide useful benchmarks.

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9 The "corretores de microseguro" must undertake a course covering the basic concepts of insurance, microinsurance and insurance regulation, and also consumer rights and ethics. SUSEP, Circular 443 of 27 June 2012, Articles 3 to 11.
10 Resolution 244/11, Circular 439/ 2012, 440/12, 441/12, and 442/12.
Table 2.4: Monitoring consumer protection performance with the KPIs

<table>
<thead>
<tr>
<th>Category</th>
<th>Consumer protection question</th>
<th>Relevant KPI</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product &amp; process</strong></td>
<td>Are the products themselves appropriate for the clients they are sold to?</td>
<td>Incurred claims ratio</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Promptness of claims settlement ratio</td>
</tr>
<tr>
<td></td>
<td>What safeguards and systems exist to protect consumers’ data?</td>
<td>Guidelines on privacy of client data</td>
</tr>
<tr>
<td></td>
<td>What renewal/re-enrollment procedures are used (including notice requirements before enrollment lapses, possibility of automatic renewal)?</td>
<td>Renewal ratio</td>
</tr>
<tr>
<td></td>
<td>What is the process for notifying the consumer if a claim is rejected or approved or if additional documentation is needed?</td>
<td>Claims rejection ratio</td>
</tr>
<tr>
<td></td>
<td>What opportunities do consumers have to file complaints and appeal decisions internally?</td>
<td>Complaints ratio</td>
</tr>
<tr>
<td><strong>Financial soundness</strong></td>
<td>What are the licensing, capitalization, and reserve requirements for (micro)insurers?</td>
<td>Solvency ratio</td>
</tr>
</tbody>
</table>

Sources: Micrainsurance Network Performance Working Group (2012); input from Bert Opdebeeck, BRS.
3. Using country case studies to understand consumer protection

While discrete lessons such as those mentioned above can provide valuable insights into specific issues in consumer protection, looking at a country’s entire consumer protection regime can lead to a fuller picture of the challenges, efforts, and tensions between different measures and the roles of different parties.

In completing the country case studies, we follow the four categories of issues outlined in the consumer protection checklist, elaborated in more detail in the assessment framework attached as Appendix 1. For each issue, we explore: a) legal requirements related to the issue (for example, information required to be disclosed to a consumer upon enrollment), b) practices of the relevant stakeholders (for example, the actual information disclosed to consumers at this time, and the manner in which it is provided), and c) tensions, problems, and gaps in consumer protection, to the extent they exist. This third category may include gaps in compliance with the legal requirements (for example, a required piece of information that is often not disclosed to consumers), gaps in appropriateness of those legal requirements (for example, comprehensive disclosure requirements that can lead to confusion by providing too much detail), or tensions between the requirements and practices in one area and the needs in another (for example, broad written disclosures that may not be cost effective).

Data collection for country case studies includes the following:

- Desk review of the relevant statutes, regulations, and contextual considerations.
- In-person and telephone interviews with stakeholders throughout microinsurance within the country, including
  - Regulators and supervisors;
  - Insurers, including a range of different types of providers such as commercial insurers, microinsurance-only insurers, cooperatives, and mutuals, where relevant;
  - Delivery channels, including executives as well as the front-line staff who interface with clients; and
  - Donors and research/policy organizations that support initiatives in microinsurance and/or financial literacy.
- Additional feedback from microinsurance providers, in the form of a short questionnaire, to gain insight into providers’ views of consumer protection regulation from a broader range of providers (Colombia case study).
- Feedback from clients themselves, in the form of client interviews (see Philippines case study, Section 4) and/or focus group discussions (see Colombia case study, Section 5).

The two countries selected for the case studies in this report are the Philippines and Colombia. Both are countries with a strong microinsurance market that provide interesting insights into consumer protection issues. The two countries are also quite different in many respects that enrich the analysis through comparison.

First, there are substantial differences in the microinsurance markets and regulatory frameworks of the two countries. Colombia has a strong and growing microinsurance market with a substantial presence of both compulsory and voluntary coverage, and a broad range of product types. In the Philippines, the microinsurance market has more limited penetration and is far more dominated by compulsory life and accident coverage (and to a lesser extent, voluntary life insurance); other types of microinsurance coverage are relatively rare. Product development and distribution in the Philippines is to a large extent led by the credit market, while in Colombia mass market microinsurance also plays a substantial role and a broader range of delivery channels (including utilities and retail shops) are commonly used. Colombia has no dedicated microinsurance regulation, while in the Philippines a parallel set of regulations have been developed in an effort to promote growth of microinsurance while protecting microinsurance consumers. Finally, Colombia’s recent regulatory effort to enhance consumer financial protection provides a unique opportunity to explore the country’s changing consumer protection framework.

Contextual and demographic differences between the countries are also significant (see Table 3.1). Colombia is a wealthier country with a lower poverty rate and a more urban population than the Philippines. Its population shows greater use of formal financial services as well as broader access to the internet and mobile phones. By contrast, the population of the Philippines is poorer and more rural, with employment in agriculture more common. Filipino families are larger on average. Regional, geographic, and cultural differences between the two countries also shape the context in which consumer protection measures develop and work. These and other differences between the countries can influence the type of microinsurance available, the processes by which it is delivered and administered, and the characteristics that an effective consumer protection regime will exhibit. The ways in which these differences shape the consumer protection framework and its effectiveness in both countries are discussed in the case studies that follow.
Table 3.1: Demographic comparison of Colombia and the Philippines

<table>
<thead>
<tr>
<th>Category</th>
<th>Colombia</th>
<th>Philippines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*Total population (2011)</td>
<td>46,927,125</td>
<td>94,852,030</td>
</tr>
<tr>
<td>*Population ages 15-64 (% of total) (2010)</td>
<td>66%</td>
<td>61%</td>
</tr>
<tr>
<td>*Population ages 65 and above (% of total) (2010)</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>*Fertility rate, total (births per woman) (2010)</td>
<td>2.1</td>
<td>3.1</td>
</tr>
<tr>
<td>*Rural population (% of total population)</td>
<td>25%</td>
<td>51%</td>
</tr>
<tr>
<td>Income &amp; poverty</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*GDP per capita [current US$] (2011)</td>
<td>$7,067</td>
<td>$2,370</td>
</tr>
<tr>
<td>*Poverty headcount ratio at $2 a day (PPP) (% of population) (2009)</td>
<td>18.5%</td>
<td>41.5%</td>
</tr>
<tr>
<td>Employment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*Unemployment, total (% of total labor force) (2010)</td>
<td>11.6%</td>
<td>7.4%</td>
</tr>
<tr>
<td>*Employment in agriculture (% of total employment¹) (2009)</td>
<td>20%</td>
<td>35%</td>
</tr>
<tr>
<td>Education &amp; literacy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*Primary school completion rate, total (% of relevant age group) (2009)</td>
<td>115%</td>
<td>92%</td>
</tr>
<tr>
<td>*School enrollment, secondary (% net) (2009)</td>
<td>74%</td>
<td>62%</td>
</tr>
<tr>
<td>*Literacy rate, adult total (% of people ages 15 and above) (2008)</td>
<td>93%</td>
<td>95%</td>
</tr>
<tr>
<td>Financial services &amp; access</td>
<td></td>
<td></td>
</tr>
<tr>
<td>**Depositors with commercial banks per 1,000 adults (2011)</td>
<td>1,115.46</td>
<td>458.75</td>
</tr>
<tr>
<td>**Borrowers from commercial banks per 1,000 adults (2011)</td>
<td>212.55</td>
<td>Not available</td>
</tr>
<tr>
<td>**Commercial bank branches per 100,000 adults (2011)</td>
<td>13.75</td>
<td>8.07</td>
</tr>
<tr>
<td>**Credit union and financial cooperative branches per 100,000 adults (2011)</td>
<td>0.81</td>
<td>0.28</td>
</tr>
<tr>
<td>**All MFI branches per 100,000 adults (2011)</td>
<td>Not available</td>
<td>1.05</td>
</tr>
<tr>
<td>Migration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>***Number of emigrants (millions) (2010)</td>
<td>2.1</td>
<td>4.2</td>
</tr>
<tr>
<td>Technology &amp; communication</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*Internet users (per 100 people) (2011)</td>
<td>40.4</td>
<td>29.0</td>
</tr>
<tr>
<td>*Mobile cellular subscriptions (per 100 people) [includes post-paid and pre-paid subscriptions] (2011)</td>
<td>98</td>
<td>92</td>
</tr>
</tbody>
</table>

¹ “Employment” doesn’t include work on own farms.
12 Total number of new entrants in the last grade of primary education, regardless of age, expressed as percentage of the total population of the theoretical entrance age to the last grade of primary. The ratio can exceed 100% due to over-aged and under-aged children who enter primary school late/early and/or repeat grades.
13 Ratio of children of the official secondary school age who are enrolled in secondary school to the population of the official secondary school age.

3. Using country case studies to understand consumer protection

24
4. Philippines case study

Emily Zimmerman and Barbara Magnoni

This case study is part of a larger analysis of challenges and good practices in consumer protection in microinsurance, exploring four categories of consumer protection issues through the Framework attached as Appendix 1.

a. Microinsurance in the Philippines

i. The microinsurance market and context

Microinsurance in the Philippines has seen substantial advances in recent years in terms of outreach, supply, and regulation. Distribution of microinsurance was historically dominated by credit providers in the form of mandatory insurance products bundled with loans. Many of those products were in the past offered informally, though the availability of formal microinsurance has increased dramatically in recent years and parallel efforts by the Insurance Commission to crack down on informal insurance operations have led to substantial moves toward formalization of the market. Formal microinsurance products were estimated to cover 7.8 million Filipinos in 2012, an increase of over 150% from the 3.1 million covered lives in 2008 (Jaio, 2012).

Development of the microinsurance market in the Philippines has been shaped in part by the well-developed credit market (Llanto et al., 2009). Microinsurance continues in large part to be offered through microfinance institutions (MFIs), rural banks, and cooperatives, in the form of mandatory insurance products combined with loans or memberships. However, more recently, these channels have begun to offer voluntary products to their clients, and new distribution channels are beginning to emerge, including pawnshops and remittance providers, as well as new mobile technology tools for delivering products. Our discussion of consumer protection issues in this case study focuses primarily on the more “traditional” microinsurance offerings, though we note considerations related to these innovative new channels and methods. By contrast, for a fuller discussion of consumer protection considerations related to mass-market channels, please refer to our Colombia case study (Section 5).

The population of the Philippines is low income (with 41.5% of the population living below the poverty line), with relatively high participation in “vulnerable employment” (44% of total employment). It is also marked by high literacy rates (95% of the adult population in 2008) and high penetration of mobile technology (92 subscriptions per 100 people in 2011), but relatively low use of the internet (29 internet users per 100 people in 2011). Roughly half of the 95 million Filipinos live in rural areas and half in urban. (World Development Indicators, The World Bank)

This population represents an enormous potential market for insurance, but despite substantial growth in recent years insurance penetration remains relatively low: an estimated 18% of the population was covered by life insurance in 2011. Against this backdrop, stakeholders throughout the domestic and international community work to increase access to microinsurance in the Philippines. In particular, the Microinsurance Innovations Program for Social Security (MIPSS), led by GIZ in partnership with the Philippine government and in cooperation with a Japanese-funded support program from the ADB, has played an instrumental role in development of the market and the regulatory framework for microinsurance.

Microinsurance providers in the Philippines include:

- Commercial insurance companies, commonly offering microinsurance through rural banks, cooperatives, and MFIs using the partner-agent model, but also increasingly developing partnerships with non-traditional channels.
- Mutual Benefit Associations (MBAs), including a special category of microinsurance-only MBAs, which are commonly created by MFIs to serve their members. CARD MBA is a leader in this category.
- Cooperative insurers, which require additional registration with the Cooperative Development Authority. Only two currently exist: CLIMBS (which is registered as an MBA) and CISP (which has been put under curatorship by the Insurance Commission).

(Insurance Code; Bester et al., 2009.)

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14 Using the World Bank’s purchasing power parity (PPP) definition, 41.5% of the population lives under the poverty line. 26.5% of the population lives under the Philippines’ national poverty line.
15 Including unpaid family workers and own-account workers.
18 http://www.microinsurance.ph/index.php
Composite products that combine life, accident, health (in the form of hospital cash), and/or property coverage are common, in part due to regulations facilitating bundling [see Section 4.b.i below]. Though the range of available microinsurance products is relatively narrow, within those products the supply side is relatively well developed, with 28 insurers (16 life and 12 non-life) offering 80 registered microinsurance products.

Figure 4.1: Categories of central stakeholders in microinsurance in the Philippines

Another key feature of the microinsurance market in the Philippines is the presence of competition in credit markets and in insurance markets. Access to credit is widespread, and in our discussions, staff of delivery channels indicated that borrowers consider the insurance coverage to be a valuable component of their loan package, and will "shop" for better insurance coverage and/or service. The well-developed supply of microinsurance (at least within the most commonly-offered products) has also led to competition between insurers, and delivery channels are able to pressure insurers to offer more favorable products and more flexible and responsive service, and to switch insurance providers when they are dissatisfied. Competition has had important implications for consumer protection, which we highlight below.

ii. Regulatory framework and developments

Insurance in the Philippines is regulated and supervised by the Insurance Commission, acting under authority granted by the Insurance Code. Among its functions, the Insurance Commission grants licenses to and monitors the operations of insurers and intermediaries, approves new insurance products, and adjudicates complaints related to insurance.

The Philippines has a dedicated regulatory regime for microinsurance, developed through a series of framework documents with input from a Technical Working Group comprised of various industry stakeholders, including 1) National Strategy on Microinsurance, 2) Regulatory Framework for Microinsurance, 3) Roadmap to Financial Literacy in Microinsurance, and 4) Alternative Dispute Resolution Framework. These frameworks are being implemented through regulations (memoranda circular and circular letters) issued by the Insurance Commission, summarized in Table 4.1. The slow, careful process of involving a wide range of stakeholders in development of the regulatory framework seems in large part to have been successful in leading to buy-in from these stakeholders: most of those we spoke with thought the regulations were appropriate, sufficient, and reasonable.

The fundamental features of microinsurance regulation have been

- Creation of a class of "microinsurance" products, which must meet specified premium and benefit restrictions and have a number of other features aimed at making them appropriate for low-income consumers
- Relaxing some prudential requirements for providers of microinsurance products.
- Creating new classes of microinsurance agents and brokers to facilitate delivery to low-income consumers.

Table 4.1: Key regulations related to microinsurance in the Philippines

<table>
<thead>
<tr>
<th>Regulatory issuance</th>
<th>Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance Memorandum Circular (IMC) No. 9-2006. Microinsurance Regulation And Declaration Of Policy Objectives</td>
<td>Creates initial microinsurance definition; establishes category of microinsurance MBA and requirements for qualification as a microinsurance MBA.</td>
</tr>
<tr>
<td>Insurance Memorandum Circular No. 1-2010. Regulations for the provision of microinsurance products and services.</td>
<td>Updates definition of microinsurance and sets forth key features of a microinsurance contract; sets forth requirements for bundled products; creates special categories of microinsurance agents and brokers.</td>
</tr>
<tr>
<td>Joint IC-CDA-SEC Memorandum Circular No. 01-2010. Defining Government’s Policy on Informal Insurance Activities</td>
<td>Requires all entities engaged in insurance activities to obtain a Certificate of Authority from the Insurance Commission, and requires all entities to terminate unauthorized insurance or insurance-like activities by December 31, 2011(^\text{20}) and sets up procedures for transition.</td>
</tr>
<tr>
<td>Circular Letter No. 05-2011. Performance Standards For Microinsurance</td>
<td>Sets forth reporting requirements on performance standards in microinsurance for all entities providing microinsurance products.</td>
</tr>
</tbody>
</table>

These regulations address consumer protection issues in several ways. They create some requirements around the characteristics of microinsurance products (including complexity and appropriateness), and are part of a broader effort to bring informal microinsurance operations into the formal, regulated space. They also allow for the involvement of delivery channels that have existing relationships with low-income consumers in a formal, supervised manner (though subject to fewer requirements than traditional intermediaries), and they create some specific reporting requirements for microinsurance that can help to track and raise consumer protection and other concerns. At the same time, the microinsurance regulations may also raise some consumer protection concerns. The more relaxed distribution requirements require substantially less training than those applied to traditional intermediaries, and may need to be supplemented by other training and education efforts. The more relaxed prudential requirements may also raise some concerns about financial soundness, though these concerns are likely far outweighed by the formalization in the market brought about by regulatory efforts. These and other benefits and concerns related to the regulation are discussed in greater detail in the sections that follow.

b. Challenges and good practices

i. Information and education

Awareness and insurance literacy efforts

A “Roadmap to Financial Literacy on Microinsurance” was established by a Technical Working Group comprised of representatives of government (including the Insurance Commission, the Department of Finance, and others), industry, donors, and researchers. The roadmap lays out broad plans and strategies for “institutionalizing financial literacy on microinsurance” with the objective that “key stakeholders shall build their capacities, increase their knowledge and improve their skills to become proactive in the provision and promotion of microinsurance. The nine stakeholder categories identified in the roadmap are legislators, government regulatory agencies, national agencies, local government units, insurance providers, intermediaries, support institutions, and donors and other development partners.

Two international organizations, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the Asian Development Bank (ADB) have been actively supporting the process for the development of this roadmap. Their role has included funding and technical expertise to develop the appropriate internal structures and capacity. Early implementation of the roadmap has focused in large part on a series of “roadshows” led by GIZ and the ADB, which bring together high-level representatives of the various public and private stakeholders including insurers, delivery channels, and regulators. The objective of these roadshows has been to bring the stakeholders together to build

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a common understanding of how best to reach the low-income market with microinsurance and to build a critical mass of microinsurance advocates. Although participants noted that the discussions in these roadshows were a valuable means of sharing insights and experiences from different perspectives, it seems that these lessons have not yet filtered down to widespread greater awareness or understanding of microinsurance among clients themselves or those who interact directly with them on a regular basis.

At the client level, insurance literacy efforts have focused mainly on awareness of insurance among the low-income population and of building consciousness of microinsurance as a type of product designed with their needs in mind. To that end, a microinsurance logo (Figure 4.2) was designed and appears in a wide variety of promotional material, regardless of the insurer or delivery channel. This logo must also be included on all microinsurance contracts [see Section 4.b.iii below]. Several stakeholders [regulators and insurers] noted that “low-income consumers know to look for this logo” and know that informal, unregulated providers (which are not legally permitted) won’t carry the logo.

These widespread consumer-directed efforts rarely go beyond simple awareness of insurance to cover more substantive issues such as when and how insurance is appropriate, how to choose a product, and how to use it. Some industry stakeholders, however, have explored more targeted efforts to provide general insurance-related information to clients. The insurer Pioneer, for example, has conducted financial literacy trainings for children and adults focusing on the use of savings and [to a lesser extent] insurance for risk management. The Philippine Life Insurance Association (PLIA) has proposed a financial literacy component for the new grade 7 public school curriculum, which would include a component on insurance.

Tulay sa pag-unlad (TSPI), a microfinance NGO that offers insurance through its affiliated mutual benefit association, TSPI MBA, uses an extensive “microinsurance appreciation” module as part of its orientation to explain insurance to new and existing borrowers. The training, typically conducted over a period of 8 weeks and delivered by the branch’s insurance officer (a staff member whose responsibilities are exclusively related to insurance), begins with an explanation of the importance of insurance in managing risk. This general discussion progresses to product-specific information about features and benefits of the insurance policy. Non-borrowing microinsurance policyholders (who have voluntary products) may also receive orientation “if they ask for it.”

Commonly, delivery channels provide some general financial education to their clients that does not contain much if any information about insurance. One such example is the “financial stewardship” training given to members of Helping Hand Development Cooperative (HHDC), cooperative based in Cavite that places members in manufacturing jobs in industrial parks in the National Capital Region. HHDC also offers loans to members for various purposes and includes a mandatory microinsurance product in its membership package. The financial stewardship training focuses primarily on promotion of wise spending, saving, and responsible use of credit. While HHDC provides microinsurance product-specific information to its members through several different channels, it does not link that information to its general education efforts or include any broader information or education on insurance in the services it offers to members.

Training of delivery channels

The Insurance Code prohibits any person from “soliciting or obtaining insurance or transmitting an insurance contract for a person other than himself for any compensation” without an agent or broker license (Insurance Code Chapter IV). A special category of “microinsurance agent” has been created, which allows MFIs and cooperatives to obtain an institutional license with much more accessible requirements than those for a traditional agent [IMC 1-2010; see Section 4.b.iii below for an overview of licensure requirements]. Prospective microinsurance agents must undergo a 3-day training approved by the Insurance Commission and conducted by “competent resource speakers knowledgeable on the subject,” which covers the following topics [IMC 6-2011]:

- Basic concepts, importance, and scientific foundation of life/non-life insurance
- Product types
- Individual vs. group insurance
- Special coverage; riders
- Standard policy provisions
- Obligations of insurance companies and agents: market conduct, claims settlement, revocation of license.
The regulation does not specify which individuals must undergo this training when the prospective agent is an institution. Generally only high-level staff participate, though other, more informal, and more product-specific training is often provided to staff who enroll clients and facilitate claims on the ground. The Rural Bankers Association of the Philippines (RBAP) has developed a training program for its members to meet the microinsurance agent license requirements. The trainings typically consist of three parts: an introduction to insurance; an overview of the regulatory requirements; discussion of marketing and enrollment processes. The bulk of this training is attended by several high-level representatives of the rural bank (often the president, a manager, and/or the compliance officer), though the bank may choose who to send. Because of high turnover rates among account officers and other front-line staff, these individuals typically do not take part in most of this training, though some of them are sometimes included in a small component focusing on product-specific information.

Insurers, to varying degrees, provide separate trainings to staff of delivery channels to explain products, marketing techniques, and requirements and processes for filing claims. It is also common for insurers to work with delivery channels to customize tools (such as posters, flyers, and product summary sheets) that can be used by staff to explain and sell products. RBAP has also developed templates of these types of tools, which its members can customize to fit their needs and the insurance products they offer.

Ultimately, the front-line staff who most often interact with consumers at all stages, explaining products to them, facilitating claims, and acting as a first resource when problems arise, receive little training and education on general concepts of insurance. Nor, does it seem, are they legally required to. They often receive some product-specific training and/or tools to use in explaining products to their clients, but there is wide variation in the content and depth of this training and information.

Practical considerations, notably high turnover rates among front-line staff, may often mean that it is infeasible to provide extensive training to these individuals, much less to verify to the regulatory authority that it has been provided. However, front-line staff could often benefit from some general training on insurance, improving their comfort in talking about insurance with consumers and their ability to understand and explain products and processes to consumers.

Product-specific information and consumer understanding

There is great variety in the amount of product-specific information given to consumers, but this information often focuses on the logistics of enrolling (completing the application form), explaining who are eligible dependents and beneficiaries, and listing the events that are covered.

One of the great challenges in explaining microinsurance products to consumers is to do so in a way that translates to a lasting understanding of at least the crucial features of the product. To gain an understanding of this and other policyholder perceptions, we interviewed 31 microinsurance policyholders,21 all of whom were clients of a rural bank or cooperative, covered by mandatory composite insurance policies offered by three different insurers. While this sample cannot provide a representative picture of how well all microinsurance consumers in the Philippines understand and view their policies, it provides insight into where and how consumer protection issues are likely to arise.

The vast majority (83%) of the policyholders we interviewed felt that the amount of information they were given about the insurance product they were enrolled in was “enough” (see Figure 4.3), but at the same time lacked a clear understanding of some basic product terms. This lack of understanding is particularly interesting given that a number of the clients we interviewed had heard a detailed description of the product as part of the loan orientation only a few minutes before the interviews.

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21 We also interviewed 4 policyholders (of the same microinsurance products) who were staff members of a cooperative, but excluded these from our analysis because they are in a unique position to understand and use the product that is not indicative of the understanding or resources we expect of a typical microinsurance consumer. These four individuals, somewhat unsurprisingly, understood both the product and the processes associated with it quite well, and would access a broader range of resources if they had questions or problems.
Forty-four percent of the policyholders we interviewed did not remember how much they paid for the policy, while an additional 22% remembered the premium amount incorrectly. It is likely that this lack of knowledge of the premium amount was exacerbated by the fact that the policyholders we interviewed in all cases had mandatory insurance coverage with premiums added to loan payments or added to membership fees. We expect that policyholders who have voluntary products and/or are required to make a separate out-of-pocket payment for their insurance would have a clearer understanding of the premium amount they pay.

The staff members we spoke with who enrolled policyholders in mandatory products mentioned spending between two and five minutes explaining the basic features of the insurance product. We were told that in some cases more time than this is spent explaining insurance, but that it is rare for mandatory products to be explained in great detail at the time of enrollment. Policyholders are typically given at least some general information about what the product covers (including the covered events, benefit amounts, eligible covered dependents, and beneficiaries), most stakeholders agree that they retain few details. Our client interviews confirmed this perception: while the policyholders we interviewed often but did not always remember what events were covered (see Figure 4.4), they far less frequently remembered the benefit amounts corresponding to these events (see Figure 4.5).

**Figure 4.4: Consumer recollection of events covered by insurance**

<table>
<thead>
<tr>
<th>Event</th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitalization for pneumonia</td>
<td><strong>100%</strong></td>
</tr>
<tr>
<td>Hospitalization for accident</td>
<td><strong>80%</strong></td>
</tr>
<tr>
<td>Permanent disability</td>
<td><strong>60%</strong></td>
</tr>
<tr>
<td>Death of spouse</td>
<td><strong>40%</strong></td>
</tr>
<tr>
<td>Own death</td>
<td><strong>20%</strong></td>
</tr>
</tbody>
</table>

**Figure 4.5: Consumer identification of benefit amounts**

<table>
<thead>
<tr>
<th>Benefit</th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitalization for pneumonia</td>
<td><strong>50%</strong></td>
</tr>
<tr>
<td>Hospitalization for accident</td>
<td><strong>40%</strong></td>
</tr>
<tr>
<td>Permanent disability</td>
<td><strong>30%</strong></td>
</tr>
<tr>
<td>Death of spouse</td>
<td><strong>20%</strong></td>
</tr>
<tr>
<td>Own death</td>
<td><strong>10%</strong></td>
</tr>
</tbody>
</table>

When we asked policyholders to name all the sources from which they learned about their insurance policy, most (75%) of them mentioned only loan officers and/or other staff of the delivery channel, and no other source of information. The contract, a family member, or a friend were far less commonly mentioned, and one policyholder said that she did not learn anything about the policy (Figure 4.6). Likewise, policyholders mentioned staff of the delivery channel by far the most frequently as the resources they would turn to with a question about the product (Figure 4.7).
Despite this heavy reliance on front-line staff of delivery channels as sources of information, the general view expressed by insurers and by executive staff at delivery channels was that loan officers in particular cannot be relied upon to devote much time or attention to explaining insurance, largely because they are focused on the more pressing details of the loan transaction. Some insurers and other stakeholders are exploring tools to support staff of delivery channels in this process. For example, Pioneer has created “True Stories” videos in which real beneficiaries of the microinsurance products explain how the product benefitted them22; these videos can be played during loan collection or by staff in the field on smartphones. Mapfre Insular often distributes laminated product information sheets that summarize coverage, premium amounts, and accepted documentation to front-line staff of the delivery channels they work with. Others display posters in common areas that summarize insurance coverage, or give policyholders a flyer or certificate summarizing of coverage to take with them. RBAP is developing a variety of templates that their member banks can adapt to explain insurance products to their clients. While these tools may in many cases be useful, they must be appropriate to the setting and amount of time available. Staff must also be trained in how to use them, and in some cases be incentivized to do so. In one delivery channel we visited, a detailed flip chart explaining basic concepts of insurance sat in the corner of the room as a staff member explained the insurance product to new clients. When asked whether he ever used the flip chart to explain insurance, this staff member responded that no, he did not, because it took too long and in any case it didn’t contain the details of the product.

Figure 4.6: How policyholders learned about their insurance policy

Figure 4.7: Where policyholders would turn if they had a question about their insurance policy

Despite this heavy reliance on front-line staff of delivery channels as sources of information, the general view expressed by insurers and by executive staff at delivery channels was that loan officers in particular cannot be relied upon to devote much time or attention to explaining insurance, largely because they are focused on the more pressing details of the loan transaction. Some insurers and other stakeholders are exploring tools to support staff of delivery channels in this process. For example, Pioneer has created “True Stories” videos in which real beneficiaries of the microinsurance products explain how the product benefitted them22; these videos can be played during loan collection or by staff in the field on smartphones. Mapfre Insular often distributes laminated product information sheets that summarize coverage, premium amounts, and accepted documentation to front-line staff of the delivery channels they work with. Others display posters in common areas that summarize insurance coverage, or give policyholders a flyer or certificate summarizing of coverage to take with them. RBAP is developing a variety of templates that their member banks can adapt to explain insurance products to their clients. While these tools may in many cases be useful, they must be appropriate to the setting and amount of time available. Staff must also be trained in how to use them, and in some cases be incentivized to do so. In one delivery channel we visited, a detailed flip chart explaining basic concepts of insurance sat in the corner of the room as a staff member explained the insurance product to new clients. When asked whether he ever used the flip chart to explain insurance, this staff member responded that no, he did not, because it took too long and in any case it didn’t contain the details of the product.

Another approach to providing information is to take some of the responsibility for explaining insurance away from front-line staff. As mentioned above, TSPI has dedicated insurance officers who provide information and education on insurance to consumers and also process claims. Some delivery channels leave the initial product explanation

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22 One such video is available at http://www.youtube.com/watch?v=UtGf_z7Ww3s.
to a supervisor, though this individual may often face the same constraints and incentives as the front-line staff. The cooperative HHDC recruits several of its members to act as "coordinators," providing extra training on insurance to these individuals with the objective that they serve as an additional resource when other members have questions or problems.

**ii. Product and process design**

**Product design and appropriateness**

Effective consumer protection hinges on making the right products available to consumers. A consumer who has a bad microinsurance product (or just the wrong product for her), will never be able to use that product effectively, even with all the right information and effective, accessible processes in place. Appropriateness at the product level hinges on both product design and matching consumers to the right products. In the Philippines as elsewhere, there is often a tradeoff between simplicity and appropriateness: simple, standardized products are easy to explain and understand and in many cases cheaper than more complex products, but often respond imperfectly to consumers’ needs.

**Bundling and composite products.** Regulations in the Philippines make it relatively easy to bundle products, including those that combine life and non-life coverage (IMC 1-2010). As a result, it is quite common with both mandatory and voluntary microinsurance to find composite products that combine life, accidental death, hospital confinement, and property coverage. Bundling is a way to provide coverage for a range of risks commonly faced by low-income people in a manner that is more efficient than providing separate policies for each type of coverage. Although a bundled product is more complicated from the consumer’s perspective than a single product covering a single risk, it is almost certainly simpler than several different policies would be, all else being equal. This provides a means of offering consumers a more “complicated” product that covers a number of different risks in a relatively simple way. Although, as mentioned above, consumers may still struggle to retain the details of coverage, the processes of enrolling and maintaining the policy will be simplified, and they will know they can go to the same place for questions about any element of the product.

**Product customization.** One way to help ensure that products are appropriate for the consumers they are sold to is to work with a delivery channel that already has a clear understanding of its clients’ risk management needs and capacity to pay for insurance, developing a customized product to suit those clients. Some insurers in the Philippines take this approach, often modeling products off of the informal insurance offered by delivery channels in the past. Pioneer is one example, noting that “delivery channels often have a very good idea of what works” and that in many cases they make only minimal changes to the design of the old, informal product. Such customization, of course, comes at an up-front cost in terms of added time and effort and added complexity, and price is a crucial component of any product’s appropriateness, particularly for low-income consumers. Other insurers (Country Bankers is a notable example) prefer an off-the-shelf approach, developing a standard product that is offered with minimal adaptations to all delivery channels the insurer works with.

**Coverage alternatives and add-ons.** Another way to ensure appropriateness is to provide coverage alternatives based on the type of consumer. It is common for microinsurance products in the Philippines to cover the primary insured, spouse, and two or three dependent children. Some products, however, provide alternative coverage for parents and/or siblings for policyholders who have different family structures. Other products allow consumers to purchase coverage for additional dependents, or to purchase a higher level of coverage for themselves. All of this customization also comes at a cost, but may greatly enhance the appropriateness of products for some consumers.

**Possibility of over-insurance.** Another concern related to product appropriateness is that of over-insurance. Mandatory insurance products linked to loans are very common in the Philippines, particularly in the National Capital Region. It is also common, according to staff of MFIs and rural banks that we spoke with, for borrowers to have multiple outstanding loans from multiple lenders. As a result, it is possible that some borrowers may be over-insured, given their risk profile and capacity to pay, with no option to opt out of the duplicative policies. Multiple credit-life policies likely always make sense when clients have multiple loans, but other insurance coverage may be duplicative (particularly where the covered individual is not a breadwinner).

**Product approval.** Another possible check on product appropriateness is through a requirement for approval of the supervisor. In the Philippines, all microinsurance products must be approved by the Insurance Commission prior to being sold to consumers (Insurance Code Sec. 226), rather than the “file and use” approach taken by many other countries, as described in Section 2.c above. The effectiveness of this additional check on appropriateness depends, of course, on the capacity of the Insurance Commission to evaluate appropriateness, and must be balanced against the increased cost and delay that this approach brings. We were told by both the Insurance Commission and representatives of some insurers that product approval tends to be quite fast, as the vast majority of microinsurance products are based closely on one of two prototype policies (for life and non-life insurance) developed by a technical
working group comprised of industry and government representatives. Others mention substantial delays from the Insurance Commission in approving new products. One insurer mentioned that most “new” products that it issues are in actuality composite products comprised of a number of different components that have already received approval, and that they do not need to seek approval for the new combination. Although requiring approval for each new combination of existing products is likely unworkable from both the insurer’s and the supervisor’s perspective, the current approach may fail to provide a clear picture to the Insurance Commission of the microinsurance products that are being sold to consumers. A modified file and use approach, through which insurers report to the Insurance Commission on product combinations (but do not need to obtain approval for each combination), might help to keep the supervisor up to date about the full range of available products.

Marketing and enrollment

There is typically little real “marketing” of mandatory products purchased through lenders and cooperatives; as discussed above, when enrolled in these products consumers are typically given a brief explanation of coverage and the enrollment requirements, and complete an application form. Consumers who purchase these mandatory microinsurance policies often receive only cursory documentation explaining the product and/or evidencing their enrollment (typically limited to a short product description or certificate of coverage), and sometimes receive no documentation at all.

While the prototype policies mentioned above were designed with the explicit purpose of being clear and understandable to low-income consumers, consumers often never see a contract in this form. The prototype policy for group life microinsurance (see Appendix 2), states that the insurer shall issue to the policyholder (delivery channel) for delivery to each participant (consumer) “an individual certificate setting forth a statement as to the protection to which he is entitled, to whom the insurance benefits are payable,” and certain conversion privileges under the Insurance Code. A similar requirement is found in the Insurance Code (Section 228), though it is not explicitly echoed in the microinsurance regulations. The prototype policy also states that the group policy shall be made available to consumers for inspection, though we expect that consumers are very unlikely to take advantage of this opportunity, if they know of it at all.

Insurers highlighted the tradeoff between the sometimes substantial cost of documentation and the potential benefits to consumers’ understanding of policies. One mentioned that while he thought it was unlikely that consumers would save the piece of paper, one benefit of it is that consumers would at least take it home and discuss with their families the fact that they have insurance coverage, promoting awareness of the policy among beneficiaries. This insurer ultimately decides, in most cases, not to issue documentation because of cost constraints, but was aware of its benefits.

In one case, staff of a rural bank mentioned that while the insurer they work with issues certificates of coverage (containing a summary of coverage on the back) to each policyholder about a month after enrollment, the bank keeps them on file in the branch rather than distributing them to the policyholders out of fear that policyholders will lose or throw them away. This somewhat paternalistic approach defeats the purpose of providing the certificate, and in so doing creates barriers to consumers’ abilities to understand the policy that they have purchased and to become more active participants in the consumer protection process.

Maintenance of policies

**Regulatory protections for voluntary products.** In the case of life insurance only, insurers are required to provide a grace period of 45 days from the date of default of premium or contribution payment. In the case of non-life insurance, insurers are required to send notice at least 45 days prior to the expiration of the contract; this notice must include in clear terms whether the contract may or may not be renewed and any changes to be made thereon, if renewed [IMC 1-2010]. The insurers we spoke with mentioned that these notices are typically provided on paper, but some are exploring SMS as a channel to send notices that may be both more effective and cheaper. The Insurance Code currently requires that notices be “in writing, mailed or delivered” to the insured [Sec. 65, 66], which appears to prohibit notices by electronic channels, though regulators indicated in our conversations that adapting regulatory requirements to contemplate electronic communication is a high priority, particularly given the implications for microinsurance.

**Risk of lapse in coverage for mandatory products.** An involuntary lapse in coverage due to failure to make payments or unintended expiration of policies is less of a concern with mandatory products, where clients are enrolled automatically when they take out a loan or become a member of a cooperative and premiums are automatically added to other payments such as loan payments or membership fees. However, there is still a risk that coverage will lapse when the consumer ceases to be a client or member of the delivery channel. This risk is particularly relevant in the case of credit-linked insurance, as it is quite common for borrowers to take breaks between loans, during which

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time they will lose their insurance coverage. This risk is part of the rationale that some banks and MFIs mentioned for their relatively new efforts to reach non-borrowers with voluntary savings-linked products available to MFI clients who have only a savings account and not a loan. While these products provide a promising option for consumers to maintain insurance coverage in the absence of a loan, to be effective, consumers must be made aware of them.

Claims

Delivery channels typically facilitate claims by collecting information and documentation from the consumer and passing it to the insurer. There is a strong focus by all stakeholders in the Philippines on ensuring that the claims process is smooth from the consumer’s perspective and that claims are paid quickly. In fact, the issue of fast claims payments was often one of the first to be brought up in our conversations about consumer protection in the Philippines. By regulation, “claims for a microinsurance contract must be settled within 10 working days upon receipt of complete documents by the provider” (IMC 1-2010).

While there is a wide range in insurers’ ability to meet this requirement, at least some insurers have shown that they can meet it under most circumstances. Delays, including quite long delays do still occur. Magnoni & Budzyna (2013) finds an average waiting time of 42 days after submission of documentation among clients of a property microinsurance product. Magnoni et al. (2012) finds a waiting time of 17 days for the funeral benefit and 83 days for the life benefit in combined funeral and life microinsurance product. One delivery channel that we spoke with had recently switched providers in large part due to delays in claims processing; this delivery channel noted that the few claims they had made to date with the new provider had all been paid within 10 business days. Other delivery channels and insurers noted that while occasional delays occur, insurers generally comply with the requirement.

Stakeholders repeatedly mentioned that from the consumer’s perspective, “a delay is a delay, regardless of who is responsible.” Even if a claim is paid within the 10 business day time period after receipt of complete documentation, a delay may occur if 1) the client does not know the requirements, 2) a delivery channel does not pass documentation promptly to the insurer, or 3) the insurer requires documentation that the client has difficulty gathering. Problems and complaints related to delays are discussed in more detail in below.

Although at this time the Insurance Commission does not appear to have taken an active role in enforcing the 10 business day payment requirement, considerable market pressure is exerted on insurers to process claims quickly. Both delivery channels and consumers themselves showed high expectations regarding prompt payment of claims. Loan officers repeatedly mentioned that consumers complain to them if claims are not paid promptly. Our conversations with policyholders confirmed this: nearly all policyholders (90% of those who gave a response) that we interviewed thought that a claim would be paid within 4 weeks after submission (see Figure 4.8).

Figure 4.8: When policyholder thinks claim would be paid after submission

Problems with claims may be encountered even before a claim is submitted: if beneficiaries are not aware that the insurance coverage exists or do not know how to file a claim. Only 28% of the policyholders we interviewed said that their beneficiaries knew how to file a claim, and only 56% said that their beneficiaries even knew that they had insurance coverage. While in many cases staff of delivery channels may be able to reach out to beneficiaries when an insured event occurs, they may not always be able to do so. The rural bank staff we spoke with mentioned that loan officers and/or group members would often reach out to borrowers’ families after a death, and the existence of the insurance coverage would be communicated in this way. In the case of lenders and cooperatives, staff often have personal relationships with clients as well as reputational concerns that motivate them to ensure that beneficiaries are contacted. However, as microinsurance moves toward delivery channels that lack these strong existing relationships with clients, other means of ensuring that beneficiaries are informed and protected will need to be developed.
In addition to having limited capacity to inform beneficiaries of coverage, it is also possible that delivery channels may in some cases lack the incentives to do so. In particular when delivery channels and insurers are part of the same group, they may have incentives to discourage claims (for example by failing to explain coverage) in order to keep costs low. While there is anecdotal evidence that this happens in other contexts, we have seen no direct evidence that it occurs in the Philippines. Indeed, several representatives of insurers and delivery channels mentioned that they like to pay claims, and that given the relatively small size of the payouts, the benefits to them in terms of public relations, trust, and consumer satisfaction generally far outweigh the cost of the payout.

**Questions, problems, and complaints**

Most problems and complaints from consumers that were mentioned by stakeholders in our conversations related to 1) confusion about coverage, 2) documentation problems or confusion, or 3) delays. As at other times, we found a heavy reliance on delivery channels, which often interface with insurers to solve these problems. Most of the policyholders we interviewed with mentioned a loan officer or other staff of the delivery channel (human resources representative, loan officer’s supervisor, or branch manager) as the first resource they would consult if they thought a claim was denied unfairly. Staff of delivery channels were also a frequently mentioned next response if the first approach was not successful. Other stakeholders confirmed this, citing front-line staff of delivery channels as by far the most common resource for consumers’ questions, problems, and complaints.

**Figure 4.9: Policyholders’ expected strategies if a claim is denied**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>First Response</th>
<th>Next Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan officer or other staff</td>
<td>50%</td>
<td>0%</td>
</tr>
<tr>
<td>Insurance company hotline or office</td>
<td>40%</td>
<td>10%</td>
</tr>
<tr>
<td>Nothing</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>Lawyer</td>
<td>20%</td>
<td>30%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>10%</td>
<td>40%</td>
</tr>
<tr>
<td>Complaint with IC</td>
<td>0%</td>
<td>50%</td>
</tr>
<tr>
<td>Inform media</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Inform SEC</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

**Misunderstanding of coverage and exclusions.** When claims are rejected by insurers, it seems most often to be the result of consumers’ confusion about which events are covered. A common confusion mentioned by several stakeholders is about what constitutes an “accident” that triggers coverage under an accidental death, disability, or hospitalization product. Though the products are typically quite simple (especially compared to traditional insurance products), consumers also get confused about the different components of composite products, especially as different family members are often covered for different events and at different amounts. Indeed, at one of the delivery channels we visited, several staff members in supervisory positions were confused about an element of the product’s coverage. Exclusions are minimal, but some exist and these finer details are often lost in the explanation of products to clients.

The insurers we spoke with mentioned client fraud as a real risk, though they could point to few concrete examples of it happening. One noted the example of new clients enrolled in life insurance just before dying (and in some case on the day of their death). It is for this reason that another insurer emphasized the importance of always having a completed health declaration from microinsurance clients; though this insurer has never used one to invoke a pre-existing condition exclusion, he saw it as vital to protecting the insurer against the possibility of client fraud. Insurers and other stakeholders mentioned repeatedly that in the absence of any evidence of fraud, there is a strong tendency to pay claims, even if they could technically be denied, or at least to pay something. They noted that the reputational risk to both the insurer and delivery channel is not worth the small amount of the claim. In this area, the performance standards for microinsurance [see Section 4.b.iv below] will provide a useful check on these assertions; by tracking claims rejections internally (and the reasons for these rejections), insurers can also develop a clearer understanding of how often claims are rejected and the reasons for these rejections.
Where claims are denied, several stakeholders emphasized the importance of clearly explaining the reason for the denial to the consumer, both from a consumer protection perspective and from a reputational one. One insurer noted “we spend a lot of time on the claims we reject... far more than we do with the claims we pay.” This insurer also noted that if it denies a claim it will often give abuloy (a traditional contribution given at Filipino funerals), and that this is greatly appreciated by the claimants and helps to avoid ill will. A staff member of a delivery channel mentioned that when the reason for a denial is explained to clients, they nearly always understand and accept it, while before it is explained they feel cheated or taken advantage of.

Documentation. Perhaps the most common problems faced by microinsurance consumers in the claims process are in meeting the documentation requirements. While we were told that documentation problems (often birth certificates or marriage certificates) rarely lead to denial of claims, they are a common cause of delay in claims payments. Insurers have shown some flexibility in the documentation and information they accept and in working around problems in a creative way, often through the use of technology. One example is that when claimants have difficulty obtaining a death certificate soon after a death, some insurers may accept a photograph taken at the wake and sent by MMS as an initial substitute. Indeed, the microinsurance regulatory framework requires insurers to accept substitute documents, but there is also some ambiguity about what documents can and should be accepted. Several insurers felt that they were pushing the limits of other legal requirements in their efforts to be flexible in the documentation accepted from microinsurance consumers.

Official dispute resolution processes. The Insurance Commission has jurisdiction to hear complaints of consumers against insurers, though only a very few have ever come from microinsurance consumers, and those related to confusion about coverage and documentation problems. Insurance policies are required to state that consumers can file complaints with the Insurance Commission, but as mentioned above, consumers often don’t receive copies of the full policies.

The Technical Working Group recently developed a draft alternative dispute resolution (ADR) framework to be implemented by the Insurance Commission. The ADR framework contemplates a dispute resolution process (different in structure depending on the microinsurance delivery channel employed) that begins with internal complaints that are elevated as necessary. At this stage, there is still some uncertainty about specifics of implementation (including who will fund it), as well as the extent to which consumers will use ADR. Many stakeholders think that they will, if they are made aware of it, noting that low-income people in the Philippines are familiar with ADR, through Barangay (village/district) officials in other contexts. In any case, the ADR framework will need to be accompanied by awareness efforts as it is implemented, so consumers know that it is an option and understand when and how to use it.

iii. Financial soundness of provider and program

Microinsurance products

The definition of microinsurance has allowed for insurers to offer these products under more favorable prudential regulations, with more agile processes and through more varied delivery channels. In general, microinsurance regulation has not burdened the insurers but allowed them to reduce the cost of delivery to facilitate more widespread access to insurance.

In the Philippines, microinsurance is defined as “a financial product or service that meets the risk protection needs of the poor where:

- The amount of premiums, contributions, fees or charges, computed on a daily basis, does not exceed five (5) percent of the current daily minimum wage rate for non-agricultural workers in Metro Manila; and
- The maximum sum of guaranteed benefits is not more than 500 times the daily minimum wage rate for non-agricultural workers in Metro Manila.

The maximum amount of premium and guaranteed benefits shall apply on a per product or per policy basis. In the case of a bundled product, this shall apply to each component of the bundled product” (Insurance Memorandum Circular 1-2010).

Microinsurance products must be approved by the Insurance Commission, and must carry the microinsurance logo (Figure 4.2 above). There have been some efforts by insurers to expand this definition to include other products that may be sold to low-income consumers but are not necessarily designed with their needs in mind exclusively, in particular compulsory motor vehicle insurance. The Insurance Commission has resisted these efforts, restricting the definition of microinsurance and the associated regulations designed to facilitate its provision and distribution to only those products designed explicitly to “meet the needs of the low-income sector for risk protection and relief against distress, misfortune, and contingent events” (IMC 1-2010).
Microinsurance providers

Prudential requirements. Microinsurance providers include any insurer (commercial insurance company, MBA, or cooperative insurer) that offers microinsurance products. Providers are subject to some more lenient prudential requirements, including:

- Lower guaranty fund requirements for microinsurance MBAs as compared to other MBAs and commercial insurers
- Lower capitalization requirements for commercial and cooperative insurers wholly engaged in microinsurance (not lower than 50% of what is required for domestic insurance companies)
- Expanded definition of admitted assets for entities engaged in microinsurance (arising from premiums collected from the sale of microinsurance), which may be considered in the computation of the margin of solvency
- Appropriate risk-based capital (RBC) framework for entities providing microinsurance products only

(Microinsurance Regulatory Framework; IMC 9-2006).

Performance standards for microinsurance. Microinsurance providers are required, as of 2012, to report to the Insurance Commission on performance standards for microinsurance set forth in Circular Letter 5-2011. These performance standards follow the acronym SEGURO, and are summarized in Table 4.2.

Table 4.2: Overlap between performance standards for microinsurance and KPIs

<table>
<thead>
<tr>
<th>Performance Standards for Microinsurance</th>
<th>KPIs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solvency &amp; stability:</td>
<td></td>
</tr>
<tr>
<td>Margin of solvency ratio</td>
<td>✓</td>
</tr>
<tr>
<td>Liquidity ratio</td>
<td>✓</td>
</tr>
<tr>
<td>Leverage ratio</td>
<td></td>
</tr>
<tr>
<td>Efficiency:</td>
<td></td>
</tr>
<tr>
<td>Underwriting costs ratio</td>
<td></td>
</tr>
<tr>
<td>Operating expense ratio</td>
<td>✓</td>
</tr>
<tr>
<td>Claims or loss ratio</td>
<td>✓</td>
</tr>
<tr>
<td>Time to payout ratio</td>
<td>✓ 24</td>
</tr>
<tr>
<td>Governance</td>
<td></td>
</tr>
<tr>
<td>Understanding by client:</td>
<td></td>
</tr>
<tr>
<td>Renewal ratio</td>
<td>✓</td>
</tr>
<tr>
<td>Claims rejection ratio</td>
<td>✓</td>
</tr>
<tr>
<td>Risk-based capital ratio</td>
<td>✓</td>
</tr>
<tr>
<td>Outreach:</td>
<td></td>
</tr>
<tr>
<td>Growth in number of MI clients</td>
<td>✓</td>
</tr>
</tbody>
</table>

Sources: Wipf & Garand (2010); BRS (2012); Insurance Circular Letter (Philippines) 5-2011

While the effectiveness of these reports has not yet been fully tested, as the first set of reports were only recently submitted, the Insurance Commission sees them as a valuable tool in evaluating the performance of microinsurance providers and in publicizing poor performance. A number of these performance standards mirror the social and financial KPIs (see Table 4.2), providing promising potential for benchmarking not only domestically, but against international providers as well. However, the formulas used for the performance standards in the Philippines often differ from the KPIs, so comparison is not always straightforward.

Progressive formalization. The regulatory framework established in 2010 included plans for progressive formalization of informal (illegal) insurance providers and products; providers could formalize either by partnering with a licensed insurer or by or becoming one themselves. These plans mirror the development of the formal

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24 The KPIs measure this indicator from the time the insured event occurred, while the performance standards measure it from the time documentation is received by the insurer.

25 Following a checklist attached to the Circular Letter.
microinsurance market: in the past, these informal insurance activities (often conducted through cooperatives and lenders) were (unofficially) tolerated by the supervisor in light of the lack of formal alternative. As the availability of formal, regulated microinsurance products has become more widespread, there has been a parallel effort to shift providers toward these formal products. A joint regulation issued by the Insurance Commission, Cooperative Development Authority, and Securities & Exchange Commission set forth a timeline and procedures for formalization (originally required by January 29, 2010, and later extended until December 31, 201126). There has been great progress toward formalization. While some informal providers remain, several stakeholders note that "most" have either fully transitioned to a formal arrangement, begun the process of transitioning, or abandoned microinsurance operations. For MFIs that offered informal insurance in the past, CARD MBA and the resource center RIMANSI have been instrumental in facilitating formalization by supporting MFIs in the process of creating licensed MBAs and capacity-building throughout the transition.

Microinsurance intermediation

The microinsurance regulations contemplate special categories of microinsurance agents and brokers to facilitate the distribution of microinsurance products. Microinsurance agents and brokers have capitalization requirements of half of those required for normal agents and brokers, and far more limited training requirements. The agent training requirements described in Section 4.b.i above are part of the licensing process for becoming a microinsurance agent. The agent licensure process is generally agreed to be relatively easy to comply with and the capitalization requirements very low, although some of the administrative components can be tedious and time-consuming. In particular, the requirement that lenders reflect acting as a microinsurance agent as a primary or secondary purpose in their articles of incorporation (IMC 6-2011) has led to delays for many.

Lenders cannot at this time be licensed as microinsurance brokers. According to RBAP, some rural banks see this as a serious limitation, as they can only offer the products of one insurer to their clients. The restriction is in place because brokerage is thought to be beyond the competencies of lenders, and many agree that this is the case. However, relaxing this restriction at some time in the future might lead to further improvements in product appropriateness, if rural banks and others became able to offer a broader range of microinsurance products from multiple providers to their clients.

MicroEnsure is the only microinsurance broker operating in the Philippines at this time, though other brokers distribute microinsurance products. Cebuana Lhuillier, a large pawnshop and remittance provider chain, is a licensed general insurance broker offering a broad range of insurance products, including microinsurance, through its outlets.

Although at this time relatively limited, regulators anticipate that in the future the involvement of unlicensed parties in the sale of microinsurance through point of sale transactions (for example, through small shops located in rural areas) will become more widespread. The current regulations do not provide for such transactions, and regulators are exploring means of using regulation to protect both consumers and insurers in these models.

iv. Capacities and responsibilities of various stakeholders

In conversations with a broad range of stakeholders in microinsurance in the Philippines, we asked a number of people who should ultimately be responsible for ensuring that consumers are able to effectively use microinsurance products. Many of them mentioned delivery channels and a few mentioned the Insurance Commission, but none mentioned consumers themselves.

While there is very little evidence of widespread consumer abuse [in terms of outcomes] in the Philippines, consumer protection relies in very large part on the role of the delivery channel rather than on empowered consumers protecting themselves. In some ways, this effectively leverages the strength of the existing relationship and incentives of the delivery channel, but also raises concerns about relying so heavily on one stakeholder to protect consumers. These concerns will become more serious as the market expands more substantially into other models in which distribution channels lack strong relationships with consumers (and the corresponding reputational incentives to protect them).

While the financial literacy roadmap and other awareness efforts have spurred discussions about microinsurance throughout the Philippines, they have yet to reach consumers with tangible lessons about how to use insurance effectively. A number of stakeholders mentioned the need for an insurance literacy campaign targeted more directly at low-income consumers themselves. All thought that only government was in a position to initiate such an effort, and that it might be most effective if administered through local government units. Such efforts, combined with efforts to communicate more thorough product-specific information to consumers, could enhance their ability to play a role in protecting themselves.

26 Joint IC-CDA-SEC Memorandum Circular No. 01-2010 and No. 01-2011.
Insurers in the Philippines in some cases show impressive adaptation to the needs of low-income consumers and the delivery channels that serve them. Throughout the processes of designing products, marketing and explaining them to consumers, enrollment, claims, and resolving problems, insurers have, to varying degrees, been flexible and responsive. Here too, however, insurers should use own and others’ developing experiences with the low-income market to inform new efforts to enhance consumer protection.

The MIPISS project has been instrumental in developing a regulatory framework and in increasing the Insurance Commission’s capacity to implement that framework, but improvements can be made, both in clarifying some ambiguous requirements in the regulations and in the Insurance Commission’s ability to provide effective, timely, and responsive supervision of those regulations. Open questions remain about the Insurance Commission’s ability to push the microinsurance market further toward formalization, and about the role it will continue to play in enhancing awareness and consumer education efforts.

c. Lessons

The Philippines’ microinsurance industry has been shaped in large part by the credit market, through which many products are still offered. In particular, competition [between insurers for the business of these delivery channels, and between the delivery channels for credit clients] seems to have played an instrumental role in creating an atmosphere that is generally responsive to the needs of consumers. In turn, the country’s regulatory framework and its application to consumer protection reflects careful consideration and effort to protect consumers from unfair practices. This regulatory framework was developed through a joint effort of various stakeholders, including public authorities, donor agencies, insurers and delivery channels. Perhaps the stakeholder least involved has been the one with the most to gain or lose from these measures: the consumer herself. Citing consumers’ low level of sophistication and lack of understanding of the processes and requirements, many delivery channels have taken responsibility for advocating on behalf of these consumers. Advocacy has been useful in developing products with valuable components [such as coverage of spouses and other family members], and increasing the speed with which claims are delivered. As the market matures, and as consumers are more and more aware of the products available to them (in some cases, perhaps “shopping around” for better coverage), the logical next step for consumer protection efforts will be to engage consumers more actively in the discourse around their own rights and obligations.

Most stakeholders believe that the current framework is sufficient, but our brief consumer survey suggests that perhaps there is more to be done. Consumers are not always aware of the salient characteristics of their products (in particular when insurance is mandatory) beginning with cost, but also covered events, coverage amounts and claims processes. While clients’ knowledge is limited, that of their beneficiaries is even more so. Public awareness campaigns that have promoted the concept of “microinsurance” could leverage their outreach and the trust they have gained to promote other more salient issues around microinsurance.

New developments in the microinsurance market may lead to new and greater consumer protection needs. The success of a microcredit–driven market, as well as early successes with new, innovative delivery channels suggest that it is only a matter of time before other mass-market channels begin to offer insurance to low-income groups. The rise of mobile money in the country also promises to expand access to insurance. Initiatives to link insurance to savings and remittances (rather than loans) also suggest that new channels may be viable over time. As use of a wider range of delivery channels [many of which are less close to consumers] becomes more prevalent, it may become important to develop greater awareness among consumers of their responsibilities as consumers and the characteristics they should consider when buying insurance, making claims, or pursuing complaints. Consumers who do not have the support of a delivery channel with the capacity and strong incentive to represent their interests, whether appropriately or not, will become more responsible for making informed decisions and navigating processes on their own.

Awareness and education efforts can empower consumers and increase their capacity to protect themselves. Education and training of delivery channels [such as the training required for agent licenses] does not necessarily translate into better consumer understanding, especially when these efforts tend to focus on high-level managers and executives. Education efforts aimed specifically at individuals within delivery channels who most often interact with consumers and explain insurance concepts to them (loan officers, for example) could go a long way toward improving consumer understanding. At the same time, education aimed directly at consumers may also be warranted. While awareness efforts have been helpful in promoting recognition of microinsurance as a distinct product type among low-income segments, they have not led to a deeper understanding of when insurance is appropriate or how it works. Broad efforts to promote general, widespread understanding of basic insurance concepts (for example, the program led by FASECOLDA in Colombia, described in Section 5.b.i), when combined with more extensive disclosures about specific products, may be effective in improving the ability of consumers to protect themselves. Communicating more complete information to consumers, and finding ways to do so that lead to lasting understanding, can put consumers in a better position to protect their own interests.
Both public and private stakeholders will play important roles in efforts to enhance consumer protection and adapt to new mass-market delivery models. Public and private stakeholders have much to gain from efforts to inform and empower consumers in the long term to avoid future disappointment as mass-market models that may be less concerned with consumer protection enter the market. Public stakeholders have an incentive to strengthen the capacity to monitor and supervise microinsurance as well as mass-market activity early on in its development. As the market becomes more complex and the distinctions between “micro” and mass market insurance become more cloudy, it will be important for the authorities to increase the resources allocated to supervision and promote more tangible measures to ensure customers are protected while not impeding the business viability of a dynamic, growing market. The situation in Colombia (described below) has reached this phase and offers an interesting perspective into some of the challenges that face a market as it grows beyond “micro” but still aims to reach low-income consumers with insurance products that are relevant and of value to them.
5. Colombia case study

Barbara Magnoni, Andrea Camargo, and Emily Zimmerman

This case study is part of a larger analysis of challenges and good practices in consumer protection in microinsurance, exploring four categories of consumer protection issues through the Framework attached as Appendix 1.

a. Microinsurance in Colombia

i. The microinsurance market and context

With a sound financial infrastructure and a strong regulatory framework for financial institutions, Colombia’s insurance market is well positioned and has been growing steadily in recent years. Between January and August 2012, the insurance industry grew 15% compared to the same period in 2011 (FASECOLDA, 2012a). Even though insurance penetration rates are still low (2.3% of GDP in 2011 (Swiss Re, 2012), penetration projections are positive (Fitch Ratings, 2013). This is not only because of the size of Colombia’s market,27 but also because of the proactivity of insurance companies that have been accessing new consumers by offering insurance to the mass markets and by innovating with distribution channels (La República, 2013; Latam Insurance Review, 2012). In sharp contrast to the Philippines, the microinsurance market has been primarily led by commercial insurers, as an outgrowth of the traditional insurance market, with limited intervention by donors or domestic authorities. If anything, the latter have been “catching up” to the market in light of its growth and have only recently begun to play a substantial role in this market. As of 2011, there were 8 million lives or properties covered by microinsurance products, including mass-market products.28 This figure represents a growth of 30.24% in the number of lives covered between 2005 and 2011 (McCord et al., 2012). It represents 60% of the 13 million Colombians, who are between poverty and extreme poverty (economic stratas 1, 2 and 3)29 and are estimated to be potential consumers of microinsurance products (Pinzón, 2011). This widespread increase in insurance coverage among low-income Colombians has been the product of action by a variety of stakeholders (summarized in Figure 5.1).

Figure 5.1: Categories of stakeholders in microinsurance in Colombia

<table>
<thead>
<tr>
<th>Donors and other supporting organizations</th>
<th>Regulators/supervisors</th>
<th>Industry associations</th>
<th>Insurers</th>
<th>Delivery channels</th>
<th>Consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Inter-American Development Bank Multilateral</td>
<td>• Colombian congress</td>
<td>• Colombian Federation of Insurers (FASECOLDA)</td>
<td>• 42 Commercial insurers (life and non-life)</td>
<td>• Public service utilities</td>
<td></td>
</tr>
<tr>
<td>• Microinsurance Innovation Facility/ILO</td>
<td>• Ministry of Finance (Hacienda)</td>
<td>• Asociación Colombiana de evaluadores de riesgos en seguros de personas (ACESPER)</td>
<td>• 2 Cooperative insurance providers</td>
<td>• Cooperatives</td>
<td></td>
</tr>
<tr>
<td>• Government initiatives [see Figure 5.2]</td>
<td>• Superintendencia Financiera (SF)</td>
<td>• Asociación Colombiana de Técnicos de reaseguro (ACTER)</td>
<td></td>
<td>• Bancassurance</td>
<td></td>
</tr>
<tr>
<td>• Researchers</td>
<td></td>
<td>• Asociación Colombiana de Derecho de Seguros (ACOLDESE)</td>
<td></td>
<td>• Microfinance institutions</td>
<td></td>
</tr>
</tbody>
</table>

27 Colombia is the sixth biggest market for insurers in Latin America (La República, 2013).
28 The figure includes potential double counting.
29 The most used tool in Colombia to establish public utility tariffs according to the wealth of each individual consumer and subsidies and establishing the beneficiaries of social programs. The classification is undertaken according to the characteristics and conditions of housing (Conpes, 2006; Díaz & González, 2012).
Colombia is a democratic republic with a population of 46.1 million people (World Bank, World Development Indicators), which was immersed for decades in internal conflict and has endured drug-related security challenges. It is currently enjoying a recovery, which has positioned it as a politically and financially safe country.\(^{30}\) Despite the global economic slowdown, Colombia’s GDP growth in 2012 was 4.3% and the unemployment rate declined to 8.9% (IMF, 2013). Nevertheless, Colombia, with a GINI Index of 0.554, was considered the seventh most unequal country in the world in 2010, comparable to countries such as Haiti and Angola (Moller, 2012). Colombia’s national poverty rate for 2011 was 34.1%,\(^{31}\) and 18.5% of its population earns less than 2 USD a day (World Bank, World Development Indicators).

The importance of access to financial services for the poor has been a strong focus of the Colombian government. Since 2006, the government has been implementing specific measures to promote financial inclusion.\(^{32}\) More recently, it has begun to promote access to insurance amongst the poor. One important driver of this new priority was the widespread, catastrophic flooding caused by the “Niña” climatic phenomena in 2010, spurring interest in property insurance.\(^{33}\) The government has also targeted extending microinsurance to an even more difficult group, the extremely poor (DNP, 2011; Camargo & Montoya, 2011), through Public Private Partnerships (see Figure 5.2) (Ramm, 2011), a group with currently limited access to insurance but up to 12 million additional potential consumers (Pinzón, 2011). While much of the low hanging fruit has likely been picked in the market for microinsurance, there is still a potentially large market to reach. Reaching this market has implications for consumer protection, however. Lower-income, often rural clients\(^{34}\) are typically less familiar with insurance products and tend to have lower levels of financial literacy. As such, it is a critical time in Colombia to step back and consider the existing consumer protection framework, its effectiveness, and its potential to meet the needs of future microinsurance consumers.

**Figure 5.2: Government initiatives on microinsurance**

- **Department for Social Prosperity:** The “Programa de Generación de Ingresos y Empleabilidad” (“Program Enabling Income and Work conditions”) of the development agency of the Colombian Presidency conceived two microinsurance products (a life insurance and a loss and damage insurance) for beneficiaries (the poorest people in Colombia). The risk carriers are ACE and La Prewiosa and the broker is DeLima Marsh.

- **BANCOLDEX:** The foreign trade bank of Colombia, which designs and manages two microinsurance programs (Futurex Vida life insurance and Futurex Daños loss and damage insurance) offered by commercial insurers to micro-entrepreneurs through its network.

- **Banca de las Oportunidades:** Program managed by Bancoldex that aims to promote access of financial services in Colombia. It recently launched a group life insurance product for Department of Social Prosperity beneficiaries, which is subsidized initially with the goal of charging a premium in the future. The risk carrier is La Positiva and the distribution channels are from the Bancoldex network.

- **Banco Agrario:** A government-owned bank whose purpose is to provide financial services to poor people living in remote areas of Colombia. With La Equidad Seguros and AON as a broker, it is providing life insurance to the beneficiaries of its microcredit products. The program was designed with the support of the MIDAS-USAID program and it costs 7,998 pesos per year (USD 3).

- **BANCOEXPRES:** La Equidad Seguros and AON as a broker, it is providing life insurance to the beneficiaries of its microcredit products.

The microinsurance market in Colombia was developed by and is currently led by licensed insurers in contrast to many other markets in which development of microinsurance was largely informal. The strong and active support of the Colombian Federation of Insurers (FASECOLDA) has helped to track, promote, and support these activities, in particular, through its Microinsurance Committee, a venue for insurers to share results and discuss issues of relevance to the market. The five insurers with the strongest presence in the Colombian microinsurance market (Solidaria, RSA, Mapfre, Chartis, and Chubb) account for over 80% of written microinsurance premiums (FASECOLDA, 2012b).

In terms of distribution, the microinsurance market in Colombia is characterized by the use of alternative channels. The principal channels are public utility companies (50.3% of microinsurance premiums), bancassurance (20%), MFIs (11.9%), the cooperative sector (5.5%), the “cajas de compensación”\(^{35}\) (1.8%), retailers (0.9%) and direct sales (0.6%) (FASECOLDA, 2012b). Public utility companies have been particularly successful, in part because of their broad customer bases and ability to collect premium payments through an existing channel.\(^{36}\) These channels, as well as Retailers, which have much lower penetration, are not subject to a specific regulatory framework that allows their

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30 Colombia was ranked 41 out of 185 countries in relation to its political, economic and structural risk in the Euromoney Country Risk 2012 (Euromoney, 2012), and ranked as the second best South American country, after Peru, for risk investment (La Republica, 2012).
31 Which means that almost 16 million Colombians had an income of less than 4.42 dollars per day (MESEP, 2012).
32 The National Development Plan of 2010-2014 recognized the importance of financial access as one of the strategies to improve the labor force, entrepreneurship and income generation, and contemplates other important developments, such as the Banca de las Oportunidades and the financial inclusion strategies in governmental programs. (DNP, 2011).
33 The rural population of Colombia represents 25% of the country’s population according to the National Statistics Department (DANE).
34 Funds that typically allocate a mandatory percentage of employee salaries to cover employer or sector-based benefits such as insurance, worker training, and recreational activities.
35 This report defines microinsurance as insurance that offers protection to low-income people and their assets against specific threats, and meets all of the following requirements: (1) designed, on its conditions and procedures, considering the target population, (2) marketed through appropriate channels to the access of low-income population, (3) bimestral (every two months) premium not exceeding one-twelfth of 1 minimum monthly legal salary (approximately USD 13.50), (4) insured value not exceeding 135 minimum monthly legal salary (approximately USD 42,500).
involvement in the distribution of insurance products. They have been participating in the microinsurance market as "sponsors" under "commercialization contracts" with insurers. They act as group insurance policyholders and their customers are the insured party and/or beneficiaries (Zuluaga, 2010; Camargo & Montoya, 2011). Regulated and supervised MFIs that are constituted as financial service companies or credit institutions can sell insurance bancassurance arrangements or through group insurance contracts for their borrowers, whereby they are not distributing insurance but entering into a contract on behalf of a third party. Unregulated MFIs can act as Non-Bank Correspondents (NBC), a more restricted role in distribution. The Financial Superintendence has responded to concerns about a lack of clarity around the delivery of insurance by unregulated channels, recently asserting that the distribution of mass-market insurance products may require regulation.³⁷

The most common microinsurance products are group life (54%),³⁸ personal accident (24%), funeral (11%), followed by other products, such as, home (5%), unemployment (2%), fire (2%), health (2%), theft, education and individual life. Microinsurance premiums written during June 2011 to June 2012 accounted for 1.7% of the total insurance industry’s premiums and 4.9% of the total premiums written for life and asset products. The annual growth of microinsurance in terms of premiums during the same period was 12.7% compared to the previous year, totaling almost USD 72 million of premiums written and 6,520,885 insured risks. The average premium of a microinsurance product is USD 1.8 per month with an insured value of around USD 5,000. The average value of the insurance benefits paid that year was USD 690. (FAECECOLDA, 2012b).

ii. Regulatory framework and developments

The Colombian microinsurance market has developed organically, without being subject to specific regulation. The law applicable to microinsurance is the "Regulatory Framework for Insurance," which governs the insurance contract and insurance activity. Other regulations are also relevant to consumer protection, including those related to social and financial inclusion as well as specific consumer protection regulations (see Table 5.1 below for a summary of relevant regulation). Insurance activity is regulated by Congress and the Minister of Finance and Public Credit, and is supervised by the President, whose competence was delegated to Colombia’s Financial Superintendence (the "FS").³⁹ Much of the insurance sector has been de-regulated since the 1990s, and growth of the sector since has been largely attributed to this. As such, there is a general wariness of more extensive regulation of microinsurance, with many expressing concern that it may erase some of the gains the sector has made in financial access since the 1990s (see Box).

Since the global financial crisis, and in line with international trends, consumer protection has become a priority for regulators and other government actors, reflected by the issuance of specific regulations around consumer protection.⁴⁰ A clear indicator of the government’s commitment to the issue has been the creation of a specific department in the Financial Superintendence allocated to deal solely with consumer protection issues related to financial services, including insurance. A 2009 financial reform [Law 1328/09] included a specific protection regime for the financial consumer: the Financial Consumer Protection Regime ("FCPR"). In addition, in 2011, the "Statute of Consumer Protection" ("SPC") (Law 1480/11) was promulgated, providing consumer protection guidelines for all types of consumers. The FCPR and SPC are applicable to the insurance activity, and therefore, to microinsurance. In addition to these specific consumer protection-related laws, the general regulatory framework for insurance has both an explicit and implicit (through promotion of financial stability) objective of consumer protection. These regulations together comprise the regulation on consumer protection applicable to microinsurance in Colombia.

³⁷ Superintendencia Financiera, Concept 2011055963-001, 12 September 2011.
³⁸ Does not include credit life
Appendix 3 offers a brief summary of the main instruments that the regulatory and supervisory authorities in Colombia use to empower the consumer in order to make him sufficiently capable to take informed decisions and defend himself in the case of the dispute. This regulation was very clear in emphasizing that the consumer also has responsibilities, and that consumer protection should not be seen as a way to allow the consumer to behave recklessly or negligently. Under this framework, the consumer has an obligation to apply good practices in order to protect himself by (i) checking that the relevant entity is licensed and supervised by the FS, (ii) reviewing the terms and conditions of the contract, and (iii) knowing how to make complaints and raise queries.41 Nevertheless, failure to comply with these requirements does not result in loss of rights by the consumer and it does not mean that the supervised entities are not required to comply with their obligations.42 This report offers an analysis of some of the practical applications of these consumer protection efforts, how they have succeeded, and where there may be room for improvement.

41 Article 6 of the FCPR.
42 In the same context, Article 3.2. of SCP establishes the following amongst certain other duties of the consumer: to be informed regarding the products and to act in good faith with the (insurance) providers. To do so, financial consumers can find support at consumer associations for the defense of their rights. Article 81 of SCP promoted such associations (that were originally recognized by article 78 of the Constitution) by providing financial support.
b. Challenges and good practices

i. Information and education

Awareness and insurance literacy efforts

A basic tenet of financial consumer protection is that consumers should be adequately informed about financial products and their uses. Where financial literacy is low, efforts to supplement information through broader financial education are needed to ensure that consumers can effectively use the more specific information they receive about insurance and other financial products. While Colombia does not have a comprehensive national strategy on financial education, there have been some regulatory initiatives to encourage the adoption of such a strategy in the future.43

With respect to the “financial consumer”, the financial reform of 2009 (Law 1328/09), includes obligations for public and private financial institutions to provide appropriate financial education and information to financial consumers (Annex 4). In particular, Chapter 1, Article 3(l) of the FCPR states:

“[S]upervised entities, industry associations, consumer associations, public institutions involved in the intervention and supervision of the financial sector, and self-regulation organizations, will provide appropriate education for financial consumers with regard to financial products and services offered by supervised entities, the nature of the markets in which they work, institutions authorised to provide those services, and the various mechanisms established to defend their rights.”

This education is specifically intended to differ from advertising in that it is meant to offer consumers the tools to make informed decisions. Insurance companies have been reticent to embark on their own independent initiatives to offer financial education, primarily due to the high cost of developing and distributing materials. Additionally, financial education requires a certain level of expertise that is not typically available internally within insurance companies. In response to the requirement to offer financial education, the country’s insurers’ association, FASECOLDA, has developed a joint program on behalf of its members to promote financial education, specifically targeting education about insurance and its role as a risk management tool. The program, “Viva Seguro” (Live Safely), is a countrywide multimedia program funded by all members of FASECOLDA, allowing for important economies of scale. Viva Seguro is disseminated quite extensively and through a variety of channels, including through booklets, radio programs, local press, FASECOLDA’s website and group training sessions.

In addition to the benefits of economies of scale, FASECOLDA’s program is a joint effort of many insurers, and as a result no one product or company is promoted but instead all insurance is treated equally. Additionally, FASECOLDA invested resources and thinking into the program, developing a comprehensive insurance-focused financial education program that offers consumers a broad spectrum of information about insurance in general. While not specific to “microinsurance,” it covers insurance concepts that can be applied to microinsurance in relatively simple language and through media widely accessible to low-income people (see Box).

43 These regulatory efforts include: Law 1450/2011, which adopts the “Plan Nacional de Desarrollo 2010-2014,” available at: http://www.secretariasenado.gov.co/senado/basedoc/ley/2011/ley_1450_2011_pr003.html; Bill. 082/2011, which seeks to provide a specific framework for regulation of financial education in Colombia; and the Law of Education (Law 115/1994), which provides some background to the promotion of the adoption of such strategy (Article 145 of Law 1450/2011 establishes that the Ministry of Education should include economic and financial education in the design of the programs).
Viva Seguro's treatment of the discussion of insurance as a risk-coping tool was developed in conjunction with Microfinance Opportunities (a not-for-profit consumer research organization focused on low-income markets). Its objective is not to "sell" insurance but more subtly to show insurance as one of a broad suite of risk coping tools. This integrated approach aims to avoid the promotion of insurance as an effective solution at all costs. While much of this intention holds in practice, the material at times reflects the conflict of interest between representing (and thus promoting) the interest of members of an association and offering a public good (financial education). In one radio spot we observed, for example, insurance is promoted at times, even though specific products are not. The tone when discussions of insurance take place emphasizes its effectiveness, which is expected, but the incorporation of "advertisement-type" spots into the talk-show format of radio shows is more ambiguous. These seem to explicitly promote insurance, for example stating: "this [tragedy] could happen to you, but, luckily there is an insurance product for every wallet." Another segment in a newscast format highlights data noting that many people could not pay their loans or took consumer loans to pay for other loans after experiencing a shock. A soap opera-type segment highlights the story of a family whose child becomes gravely ill and has to pay its assets or go to a moneylender to cover medical costs. Perhaps to balance the negative view of credit, a few short interviews describe how bank loans and pawnshops helped some people manage crises. The program's hosts close the show with a reminder that when people borrow, they should know how they will pay for the loan and that people can become unable to pay loans when they borrow for emergencies. Lively music and quizzes are interspersed to keep the program entertaining.

Most radio spots remind people to read their policy documents carefully for more information and also reference FASECOLDA's website for more information.

Source: [http://www.vivasegurofasecolda.com/](http://www.vivasegurofasecolda.com/)

As with insurance companies, delivery channels that are supervised by the Financial Superintendence must offer their own financial education programs in addition to those offered by insurers. This education requirement, mandated by the FCPR, applies to deposit-taking financial institutions (banks, regulated microfinance institutions and some cooperatives) as well as cajas de compensacion, insurance brokers and some agents. Nevertheless, other non-traditional delivery channels such as utility companies, supermarkets and some microfinance institutions (NGOs), are exempt of such obligation given that they are not supervised by the FS. Most supervised delivery channels include an insurance module as part of their overall financial education given that many offer some type of insurance product. The challenge with offering financial education through financial institutions, however, is in finding an effective format for financial education delivery, because, in contrast to many other countries, individual rather than group loans predominate. This increases the cost of delivery of services, including education, to clients and typically necessitates a one-on-one approach because clients are not already gathered in groups for another purpose. As

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45 Funds that typically allocate a mandatory percentage of employee salaries to cover employer or sector-based benefits such as insurance, worker training, and recreational activities.
such, mandated financial education efforts are relatively weak in microfinance as they are often provided through voluntary and infrequent group workshops rather than the one-on-one operations and interaction with clients. Banca de las Oportunidades, a program of Bancoldex (see Box) facilitates insurance access through the relationship Bancoldex has as a second-tier lender to some MFIs and cooperatives and has been committed to improving client awareness of financial products and services and to promoting insurance as a risk management tool for low-income people. It has developed an extensive financial education curriculum (covering a range of financial products including credit, savings and insurance) that is distributes through various MFIs and cooperatives. In contrast with the FASECOLDA program, it does not include radio spots or mass media distribution, and is distributed only through training courses, Bancoldex’s web site and printed materials. While it reaches fewer consumers than FASECOLDA’s materials, this curriculum shows a much greater focus on low-income consumers in particular and takes a somewhat more “neutral” approach, though still comprehensive enough to explain insurance—some of the material on insurance was designed with the help of FASECOLDA. However, the language in Bancoldex’s materials is generally simpler than that used in Viva Seguro. For example, insurance premiums are explained as “price,” and defined in simple terms. The materials offer a broad understanding of financial products as tools for investment, asset building and risk management. As such, insurance takes a prominent place but does not dominate the materials.

Training of delivery channels

Most of the delivery channels used in microinsurance are not recognized or licensed as insurance intermediaries (brokers, agencies and agents) under Colombian law. Their commercialization of mass-market insurance and microinsurance typically involves group insurance policies through which the clients of the delivery channel are the insured group. While not licensed intermediaries, delivery channels are closest to the end client and thus are in many respects in the best position to disclose the terms, conditions, and in particular exclusions of the insurance contracts that they market. They are permitted to disclose this information to varying degrees: financial institutions and most common delivery channels are authorized to sell insurance and may explain products and disclose specific information, less commonly-used channels, such as retailers, are much more substantially restricted.

Distribution channels that disclose information are required to undergo training, for the staff of the insurers (FCPR Art. 8), insurance intermediaries (Article 3 Decree 2685/93), and any staff of a network used by insurers under the bancassurance arrangements (Article 2.3.1.1.3. Unique Decree modified by Article 1 Decree 2673/12). Microfinance institutions typically incorporate this training into the overall training offered to their new loan officers. One MFI we interviewed noted that loan officers are inducted over a series of weeks and receive both classroom training and on-the-ground training related to microinsurance. Additionally, MFIs often randomly oversee loan officer visits with consumers to ensure compliance with disclosure and other requirements. While this process is subject to the discretion of the internal staff and management, it can avoid blatant mishandling of information by loan officers with end clients.

In the case of public utilities, which deliver 50.3% of the microinsurance offered in Colombia (FASECOLDA, 2012b), direct sales forces and customer support call centers are hired and authorized to sell insurance door-to-door and/or by phone. These staff are generally trained in group sessions at the time of induction. The training can take place monthly, according to some insurers, or as often as every two weeks. The relatively high frequency of training reflects the high rotation of these personnel, which is an issue of concern for many insurers. To ensure that sales staff are complying with the disclosure of information and are not using coercive sales tactics, spot checking and auditing is common practice for insurers. Some insurers select 10% or 15% of people who have been approached for insurance and follow up with them with a call to ask whether sales staff effectively explained a product or if a customer purchased this product willingly and in an informed manner. While this cannot entirely avoid poor practices, it helps identify sources of problems and address these relatively quickly, and knowledge of this oversight alone may be effective in discouraging poor practices.

There is no applicable regulation of training for unauthorized delivery channels. This includes supermarkets, which to date represent a small segment (less than 1%) of total microinsurance sales. In supermarkets, cashiers are trained to limit the information offered to customers only to the type of insurance (e.g. personal accident) and to note that more information is available by calling a phone number listed on the individual certificate, which is printed out by the cash register for the customer: Section 5.b.ii below discusses some resulting challenges.

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46 Details are available on Bancoldex’s website: http://bancadelasoportunidades.gov.co/documentos/Educacion_Financiera/04.pdf. In contrast FASECOLDA’s materials vary, using both simple language to describe premiums as well as more technical terms.
Product-specific information

Insurers, directly or through their intermediaries, must provide consumers with detailed information about the policy, including coverage, exclusions, and claims processes. In particular, according to the FCPR, consumers have the right to receive information from the supervised entities (including insurers, licensed intermediaries, supervised MFIs and banks). However, regulations appear to be in some ways skewed in favor of insurers. While insurers are sanctioned with penalties for non-disclosure of information, the contracts are not invalidated. By contrast, consumers are penalized by rendering contracts invalid if they fail to appropriately disclose their risk status [such as pre-existing conditions] to insurers (“reticency of the insured”), and sanctions can take place even at the time of a claim [Art. 1058 C.Co].

Insurers and advocates complained in our conversations that the cost of disclosing the required information was high, noting that the required disclosures can take up 3-4 pages or more in policy documents. In actuality, however, such long and costly policy documents are seldom issued to low-income consumers. Mass-market or microinsurance products are typically issued through group or collective policies, in which the delivery channel or “sponsor” [such as a public utility, MFI, supermarket, etc.] is the policyholder. The sponsor enters into the insurance contract with the insurer and signs and receives the policy. A parallel commercial arrangement ensues, though which commissions are paid for enrollment of customers by the sponsor/policyholder. The insurer then issues an “individual certificate” to each customer who enrolls. The law stipulates that the information in these individual certificates [as well as in policies] be printed in a certain size and that exclusions be clearly marked in a distinguishable font from the rest of the information. This requirement has been interpreted differently by different insurers. A review of 10 individual certificates shows that most include exclusions in bold and italics. In the case of a policy sold at a supermarket, this information was distinguishable in capital letters as opposed to the sentence case of the remaining information (see Appendix 4). The individual certificates typically include general information such as policy number, the insurer’s name, the policyholder’s name, the expiry date, the covered amount, the beneficiaries, the covers and exclusions, the premium or the way to determine it, the consequences of disclosing an incorrect age. Some individual certificates [for example La Equidad’s life insurance product offered through the Ministry of Agriculture] also offer some basic information about insurance definitions [see Appendix 5].

While the limited information provided to consumers may be incomplete, insurers expressed concern about the cost of providing disclosure, as well as some skepticism of whether disclosure led to greater understanding or usage of information. Costs are an essential consideration in microinsurance, as a high cost of delivery can severely discourage the development of the industry, drive prices up, and ultimately impede access to microinsurance. In Colombia, the cost of disclosing information can be quite low, however, with the individual certificates used in group policies, which can be as small as a supermarket receipt and are at most 1-2 letter-sized pages.

Figure 5.3: Insurer perspectives of cost of complying with consumer protection regulation

Despite the success of insurers in keeping costs of individual certificates low, in our brief survey of Colombian insurers (34 respondents), 27% noted that the cost of complying with consumer protection requirements was very high, and another 35% noted these were somewhat high [Figure 5.3]. Interestingly, 58% of the same respondents said that they would offer more products if consumer protection requirements were more flexible and 35% said they would reach more potential customers. Thirty-two percent noted that with more flexible requirements they would offer more advertising and products rather than less. This feedback highlights some of the potential pitfalls of over-regulating the information provided to consumers. While consumers have the right to know and understand products they purchase (or decide not to purchase), the right to receive detailed information must be balanced against its cost; consumers’ access to these products may be diminished if delivery costs are too high.

47 Article 7c FCPR, Article 95 SFS, Circular Externa 015/10 and 030/10.
48 Article 5a FCPR.
49 Article 3.6.3.5. Title VI, Chapter II of BLC.
50 Article 3.6.3.5. Title VI, Chapter II of Circular Básica Jurídica. The individual certificates do not need to include information about waiting periods, automatic renewals, claims requirements but often do.
**Premium levels** are not required to be included in certificates, and often are not included. In the case of microfinance loans, insurance premiums are often “bundled” into loan payments, sometimes leaving consumers unable to distinguish them in payment plans from loan payments and other fees and commissions. Because microfinance institutions purchase collective (group) policies and pay an annual premium up-front, they are not required to disclose the premium to clients. Instead, they typically finance the annual premium with a loan on top of the microcredit loan clients are taking out, and bundle the payment of this smaller loan into their total payment plan. One microfinance institution noted that this was a way of guaranteeing that clients would not be delinquent on their insurance premium payments and leave the MFI in the situation of having to cover this cost. While this mechanism is legal, it is not transparent and highlights some of the trade-offs between simplicity and complexity, transparency and persistency. It is an important trade-off to reflect upon, however. The comments of one insurance company staff member that came up in a workshop on delivery of microinsurance reflect the possibility that consumers may be short-changed in this scenario. He notes that MFIs are especially good delivery channels to ensure persistency because “the client doesn’t always know that they are insured.”

In the case of customers of public utilities, where regulations (Decree 828/07) require that utility companies distinguish a premium payment from the payment of public utilities, insurers instead noted that, “Clients see they are covered by insurance on their bill every month.”

In addition to information provided directly to consumers in the individual certificates, supervised entities providing mass-market insurance must additionally report the premiums for all their “mass” insurance products and services to the FS. This information must be also be displayed at all times at their offices, ATM or cash machines, and on their websites. **51** Additionally, insurers must post *policy information online* to ensure that it is available not only to its “group” policyholder but to end customers. **52** Many insurers cited a high level of internet usage in the

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**51** Article 7o of FCPR.

country as a rationale for allowing this disclosure to take the place of more detailed printed materials. However, data on internet usage suggests that this mechanism may be underused in practice by microinsurance consumers. Colombia has relatively high internet access and usage: 40% of all households have used the internet (though only 16.3% of residents of rural areas) and 15% are subscribed in their homes.\(^53\) While this is still far from universal, insurers claim that posting policies on the internet provides access to almost all clients. A brief attempt to review the online materials of three insurers, however, showed that even if available online, policies can be hard to find and understand. First, because group policies are posted, premiums and coverage amounts are cited for the group and not individual holders. Second, scanning web sites of insurers requires some level of comfort and expertise to find the actual links to policies; not all internet-users may have this level of comfort. Third, policies can be difficult to read (see example in Figure 5.5), with small fonts and low resolution that may not be legible on a computer screen. When asked whether they track the “hits” on policy documents online, one insurer explained that they did not do this and had never considered tracking.

While the content of information delivered to consumers is critical, we consider *how and when the information is transmitted* to consumers to understand how the regulatory environment has influenced practice. Improving how information is transmitted might be more effective in increasing consumers’ understanding of products than increasing the amount of information. Information communicated at certain times and in certain formats may be less likely to be understood, assimilated, and remembered by consumers.

Our study included a focus group discussion with 8 claimants (6 women and 2 men) of a life and permanent disability policy that was offered through an MFI. All of them took over the economic activity of the deceased and as a result maintained a credit and/or savings relationship with the MFI. They thus had continued access to the same voluntary microinsurance policy that they had made a claim on, though none chose to purchase it. The purpose of the focus group discussion was not to make any statistical or generalized conclusions about the effect of consumer protection regulation on the end consumers but to listen to some consumers and consider some potential flaws in the framework that may result from a disconnect between theory and practice. As such, the following observations provide ideas and hypotheses rather than conclusive answers.

- **The product offered value to beneficiaries in helping to deal with some of the costs of losing a household income earner.** For people who have debts to pay, this was useful to ensure that debt could be serviced or even paid down. Most claimants who had received their insurance payout used the money to cover outstanding debts of their own or of the deceased (debts that were not with the MFI, which also offered credit-life coverage).

- **Beneficiaries were unsure of how the money could be used and felt it could have been better used in retrospect.** In discussing possible improvements in the product, clients suggested support services that help the beneficiary with financial planning, lower price, and linkages to savings, highlighting the group’s relatively low financial planning and education skills.

- **Awareness of coverage was low.** Only two beneficiaries knew of the insurance coverage prior to the death or incapacity of their spouse or family member. These were women who said they were very involved in their husband’s business and financial life. The others did not know and were only made aware of their coverage when the MFI’s loan officer phoned or visited them to complain that their spouse was delinquent on a loan. Upon learning that the spouse was deceased or incapacitated, the loan officer then began to work with the beneficiary to explain the claims process, have the original loan forgiven and make a new loan to the beneficiary. In one case, the loan officer found out about the death through a community newsletter and contacted the family directly.

- **Prior knowledge of coverage may have facilitated the claims process.** The claim was paid within a month and a half for the two participants who knew their husband was covered. Of the remaining six beneficiaries, two still had not been paid (one of whom had been waiting over seven months), and were not able to say why.\(^54\) Claims handling was managed directly with the loan officer and there was no awareness in the group of alternative mechanisms for complaints or questions made available by law (such as ombudsmen, consumer protection bureau at the Superintendence, or direct access to the insurance company).

- **Trust was low and remained low on average.** Some of the complacency with the delays in claims may be related to generally low levels of trust in the insurance product. One client who was still waiting to be paid compared the submission of insurance claim documentation to a lottery. If she got paid, great, but she was not counting on it. Another who was paid said that she did not expect the payment to be made “so quickly.” One woman said the payment of her claim “took her by surprise.” Another noted that other banks often don’t follow through with their promises. The low level of trust suggests one reason that clients were not actively engaged in complaining about slow payments and why a 30-40 day claim turnaround seemed fast to them. It also likely contributed to their decisions not to purchase insurance through the MFI.

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\(^{53}\) DANE Colombian National Statistics Institute census data 2010

\(^{54}\) By Law (Commercial Code ver article 1080), insurers are obliged to resolve claims within a month of the submission of documentation. The beneficiaries in the interview were neither aware of this law or of the specific reasons for their delays, however.
• **Product knowledge was low.** These consumers had virtually no knowledge of the basic information about the insurance product, including premium and coverage, exclusions, or eligibility, despite the majority having received covered benefits as beneficiaries. They all remembered loan officers telling them about insurance and savings products offered by the MFI during the loan application process, but suggested they may have been too distracted by the loan application to pay close attention. Another indication of low product knowledge was that 4 of the 8 participants had funeral insurance through public utilities and thought that additional insurance would not be useful because “you only die once.” There was a misconception that one product would cancel out another.

The focus group discussion called attention to some important concerns that arise when thinking about how clients internalize knowledge and the influence this has on their understanding of insurance information, decision-making and trust. In the case of the delivery channel (MFI) that was involved, protocols for training and delivery of information were thorough, and loan officers appeared to be complying with these protocols. Supporting marketing information was offered in the form of posters in branches and handouts. Protocols were followed and information was delivered, but consumer understanding was still low. The implication is that increasing the amount of printed material or training provided may in some cases do little or nothing to improve consumer understanding. It seems unlikely that regulations requiring more extensive printed material or training would have changed the responses of the consumers we spoke with. Instead, improving the overall awareness of insurance, strengthening the trust (and follow-through of insurers) and potentially improving the quality of training to ensure that it considers when and how clients internalize information may be more effective. These types of modifications typically fall outside of the realm of regulators but have important public service implications for efforts to improve the quality and mechanisms for delivering information to consumers.

**ii. Product and process design**

**Product design and appropriateness**

There is no strong sense of what an “appropriate” product is for the low-income market in Colombia. Many mass-market products sold to low-income consumers are not specifically designed with particular attention to the needs of low-income consumers, and efforts to design products to meet their needs have been limited and often unsuccessful. For example, most of the products in the market we encountered (with the exception of those sponsored by government programs) continue to have exclusions and limits that lead to high rejection rates. While rejection rates for microinsurance products are not publically available, anecdotal, some insurers have told us that products that are well priced and well utilized are often also have relatively large proportions of rejections, due in part to the exclusions (which keep prices low). One staff member of an insurance company noted during a workshop that, “clients are to blame” because they don’t understand the exclusions from the start, then they “complain about rejections.” This perspective was echoed in various meetings, though perhaps less blatantly.

This perspective underscores the relationship between appropriateness and understanding in consumer protection: a product cannot truly be appropriate if it is too complex for low-income consumers to understand and use effectively, given the amount and type of information they receive. Similarly, a certain amount of complexity may improve product appropriateness (by keeping prices low, for example through exclusions, or by improving responsiveness to consumers’ needs), but can only be effective to the extent clients can understand these details. As such, efforts to improve product design and consumer understanding can work in parallel.

In response to a perceived gap in the availability of products designed for consumers, Bancoldex has initiated a number of efforts to design products for the low-income market, focusing primarily in two types of microinsurance: life and property. Bancoldex has worked with insurers to develop life microinsurance products with limited exclusions and that are simple to market. For example, a product offered by the cooperative insurance company La Equidad through the rural bank Banco Agricola starts at monthly premiums of USD 4.50 with benefits of approximately USD 1,000, and has few exclusions. Bancoldex has also responded to concerns within the government that climate change has been affecting the country’s poor disproportionately, and has recently developed property microinsurance that covers flooding. These government-driven initiatives are important, and to some extent help to define where “micro” insurance ends and “mass market” insurance begins in Colombia. However, their role in the low-income insurance market is rather limited.

Undoubtedly, one of the most substantial impediments to truly client-centered products (with limited exclusions and broad, appropriate coverage) is the high cost of delivering these products. Very little of the cost to consumers of most products is made up of risk premium. Large commissions of 30-50% go to delivery channels, and brokers often intermediate those relationships, taking another 10% or more of the total premium. Insurers complain vehemently about these costs, asserting that they limit their ability to offer innovative products. However, the costs reflect the fact that many insurers have built limited infrastructure to offer microinsurance, outsourcing sales, payment collection to third parties. According to the MILK Project team,60 these third parties do not cost their services out separately,
so it is difficult to know whether the commissions represent the true cost of their services. However, regulated MFIs do publish their revenues from microinsurance sales on their financial statements, and these are often an important component of total revenues. Additionally, it is possible that distribution channels are acting somewhat opportunistically given that they are aware of the limited options insurers have to reach the target market. This leaves little room ultimately for insurers to offer products that cover more risks or exclude fewer people. One insurer explained that his company developed an innovative product with an MFI that was based on detailed research of client needs. The product included coverage for clients who suffered short-term incapacity due to illness or accident and did not require extensive medical proof of incapacity because clients often skipped medical care when they fell ill. Claims were very frequent and represented over 60% of total premium income. This discouraged the insurer from continuing the product because it was not sustainable, given that the remainder of the premium income was going to the MFI as commission. After the insurer dropped the product, the MFI found a new insurer to offer a similar product, but with more limited coverage. This revised version no longer covered short-term incapacity, but only long-term incapacity, a much less frequent event, which reduced the value of the product to clients significantly.

The problem of value and appropriateness, however, extends beyond high distribution costs. It puts into question some of the foundations of the evolution of this extremely dynamic market where various players have been competing for a relatively small low-income “pie” over the past five years. While this pie is growing, challenges in distribution have limited this growth. There is concern, for example, that some of the growth may represent multiple coverages of existing clients rather than expansion into new clients. As such, the “pie” may not be growing sufficiently to keep all of the players engaged in the long-term. The dynamic has revealed the existence of two main types of players in this market. On the one hand, commercial insurers with a stake and long-term vision to be in the low-income market have struggled to improve their products and services to ensure that clients perceive value and are retained. These insurers are constrained by high delivery costs and have a limited ability to innovate in products or reduce exclusions because of their need to contain risk, but they are aware of the value of building trust in their customer base and encouraging claims. On the other hand, other insurers have entered the market rather opportunistically, investing little in building infrastructure and loyalty and remaining satisfied with products that have kept claims very low with no concern for the value. They have contributed to the rise in distribution costs by offering higher commissions to gain new business. One insurer we spoke to mentioned that its three main mass-market/microinsurance products have all had very few if any claims at all to date. The product that Carrefour sells at its cash registers (described below), for example, was described to us as having very low claims, consistent with a 2010 study citing only 43 claims for 2,802,941 policies issued in 2009 (Zuluaga, 2010).

Despite a strong mandatory credit-life business in Colombia, 69% of microinsurance risk is sold on a voluntary basis. This implies that consumers are at least somewhat aware of what they are buying, as they must make an active choice to opt into insurance products at the time of purchase. In practice, the prevalence of voluntary microinsurance masks some more aggressive marketing strategies used by distributors. In particular, MFIs were cited as being among the most likely to use “hard selling” practices for insurance because of the close relationships they have with their clients, their clients’ reliance on them for loans, and their approach to “hard selling” other financial products. Interestingly, MFIs are presumably also among the most socially-driven delivery channels in the country, citing poverty alleviation, financial access and empowerment as some of their key missions. This reflects a paradox in Colombia’s landscape for delivering microinsurance, and implies that in many cases commercial channels may be on equal footing with more “social” channels for distributing microinsurance.

Marketing and enrollment

The legal framework for advertising and marketing of insurance products is particularly concerned with the avoidance of false or misleading advertising. Consumers have the right to receive protection against misleading advertisements. In practice, insurers must submit to the SF all of the advertising and marketing materials at the time they submit filings for a new product. This filing typically takes place after the issuance of new product but the SF can retroactively request a modification or cancellation is deemed necessary. Models for advertising microinsurance typically require low-cost marketing mechanisms. As such, most advertising takes the form of posters, flyers, and hand-outs. Websites often offer additional, more passive, advertising. Radio spots with local stations have been used to advertise microinsurance in some instances, but can be costly. All delivery channels are subject to the same regulation and supervision of marketing (i.e. non-supervised entities are not exempt).

55 Interview with Rick Koven, Business Case Program Manager of the MILK Project of the Microinsurance Centre
56 Some attribute the attractiveness of sales of microinsurance for MFIs as a way to increase revenues to make up for caps in interest rates in the country, which limit revenues from lending operations.
The information and documentation required of consumers at the time of enrollment in microinsurance is typically minimal. Colombia’s anti-money laundering requirements, including “know your customer” requirements, are not applicable to insurance products when the insurance coverage is under 135 times the national minimum wage, therefore most of these requirements are not applicable to microinsurance products. This exemption effectively reduces the regulatory burden of enrollment, though not at the time of claims. One legal director at a large insurance company noted that rule showed a “positive effort” of regulation, a recognition by the supervisory authorities that a mass market product would be almost impossible to track and also very unlikely become a threat for money laundering, given its very small size.

Because of the relatively “hands off” role that insurance companies play in interacting with end-consumers in micro and mass-market insurance, the primary marketing activities, particularly when considering face-to-face or phone based marketing, often fall on distribution channels. Marketing or commercialization of insurance takes on various forms depending on the distribution models used. Distribution through public utility companies typically involves door-to-door marketing by licensed agents (either direct or third party) of the insurer and supporting sales and support services by an outsourced or in-house call center. Both supervised and unsupervised MFIs are able to market insurance through their loan officers, who explain products and seek agreement of customers to be insured under their group policies. In both these cases, a relatively detailed description of the product, its exclusions, and its conditions, is legally required and seems typically to be given. In the case of retailers, however, such detail is not required and in fact is not permitted by the regulatory framework.

The few microinsurance models that employ supermarkets and other non-traditional “sponsors” as delivery channels are restricted to using only quite passive sales techniques. At best, these restrictions limit sales; at worst, they can mislead customers. While regulatory restrictions can limit the amount of information given to consumers at the time of sale, practical considerations may also play a large role in the time and attention devoted to explaining insurance (see box below). Sales can be limited by delivery models that rely on cashiers who are busy and may forget or decide to avoid offering customers insurance during a busy time of day. A lack of client interest in buying products may also discourage cashiers from offering a product they do not believe in or are unfamiliar with, especially in light of the low value of the products typically sold in supermarkets. Additionally, the limitation of cashiers in offering information also limits them from explaining policy conditions. It is possible that a person with a pre-existing condition might buy the product and not be aware of this particular exclusion (or even be alerted to the fact that the product might have some exclusions or limitations) until after the purchase. The cashier sales model has not proven successful in in gaining traction and volume in the market to date. In the case of Carrefour in Colombia, this distribution channel represents only 0.2% of all premiums (December 2012) and 1.6% of covered lives. A visit to one Carrefour supermarket shed light on the fact that supermarkets themselves are questioning the value of this distribution method. A few steps from the cashiers offering personal accident insurance of Colseguros for pennies when customers checked out, an agent from a competing insurer, MAPFRE, sits in a Carrefour-branded booth. The agent was sitting down, spoke calmly, explained various options, and offered an immediate quote for an insurance policy that she printed out and handed to a potential customer. This high-touch approach is more expensive, but sells policies with higher (but still widely affordable) premiums of USD 4-40 per month to better-informed customers. In the case of Supermercados Exitó, “packaging” insurance offered by Suramericana in a tangible form, such as soda cans (see picture) offers consumers the opportunity to purchase a product voluntarily after reading some basic information on the package. The cashier simply serves the function of scanning the product as any other product in the store. As in the case of Carrefour/ MAPFRE mentioned above, a Suramericana representative is available to sell mandatory vehicle insurance at the supermarkets and can also answer questions about non-vehicle products.

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58 Circular Externa 026/08 and Circular Externa 019/10
Given the limited resources available for advertising, microinsurance marketing, sales, and enrollment are often bundled into a single “step.” A customer will be approached, told about a product, and provided some written or oral information with the opportunity to sign a policy either immediately or at a later date. The latter option adds to the cost of delivery, but gives consumers the chance to think about the product and improves the likelihood that they will make an informed, well-considered decision. To avoid the cost of a second visit, enrollment in insurance online and by phone has become increasingly common for products delivered through non-traditional distribution channels. Codensa, for example, offers instructions on how to download a policy online (an excerpt from the online policy is shown in Figure 5.5 above).\(^\text{59}\) In the case of Codensa, licensed agents are making sales and can offer sufficient information about the products’ characteristics, including exclusions, for consumers to make informed purchase decisions. In contrast, Colseguros’ personal accident insurance sold through the Carrefour supermarket chain at cash registers, for example, requires that customers call into a call center to provide additional information for their policies. This reduces the cost of enrollment at the cashiers and avoids the licensing requirement. This method solves the basic regulatory hurdle of having non-agents offer insurance (in that they are not disclosing any information that may mislead customers), but offers a new dilemma, whereby consumers are not able to make decisions about their purchases in an informed manner as they have no access to the information. Only after their purchase can consumers realize that they may not want the insurance but at that point, it may be too late to cancel a policy. The following section discusses some of the challenges around regulating “cooling off” periods, which may help to address this concern.

\(^{59}\) Consumers can download their policies online at this site for a Mapfre/Codensa sponsored insurance product.
Maintenance of policies

Regulation in Colombia requires insurers to offer a cooling-off period of at least five days, during which time the consumer may cancel the policy and be reimbursed for the premium paid as long as that policy has not yet been activated. Legally, the consumer can retract within the cooling off period or revoke their contract at any time. However, because microinsurance policies are nearly always issued collectively (and the “policyholder” is not the consumer), the end consumer is not always aware of this right.

The use of automatic renewal clauses raises some consumer protection concerns. While they can help to ensure continuity of coverage (and to avoid unintended lapse of policies) they can also result in renewal of policies without the intention or knowledge of the consumer. According to the Consumer Defense Department of the FS, articles 11 and 12 of the FCPR regulating abusive clauses and practices could cover the issue automatic renewals, but have not been applied thus far. The Department also noted that is not aware of any current practices or clauses covering automatic renewal that might be abusive. The Director of the Consumer Protection Department of the FS showed us an example of a product in which the automatic renewal is a clear and useful feature, a mandatory vehicle insurance product in which customers have a choice when they initially enroll to request automatic renewals, the purpose of which is to ensure continuous coverage over time. The FS does not monitor these clauses, but relies on the Financial Consumer Ombudsmen (see “Questions, problems, and complaints” below) to identify abusive clauses and practices and report them to the FS, after which they may be investigated. This reliance on the Ombudsmen (who rely on consumer complaints to bring issues to light) could be a problem, as consumers who are not aware that their policies have been renewed without consent will not file complaints; other consumers may wish to complain about an automatic renewal but be unsure of where to go, or may only approach their delivery channel with the complaint.

One insurer noted that renewals required the issuance of a new certificate, and criticized this requirement as costly and unnecessary. This insurer did implement the policy of redistributing certificates upon renewals. However, other insurers disagreed: one mentioned that new certificates are not commonly issued for renewals because of cost, while another does issue these certificates and did not complain of the cost. In the case of public utilities, it is common practice to use an automatic renewal feature. However, insurers note that in these cases, renewal certificates are not needed because the consumer is made aware of a renewals through his utility bill, which clearly shows the cost of a premium. However, there is no note on this bill about where to call to cancel or that this policy has been renewed, which may reflect some technological limitations of the public utilities in terms of tracking customers and printing the information on their bills. The companies assured us that the cancellation information is available in the original policy certificate. While the practice exhibits a lack of transparency, an attempt to regulate this should be mindful of the practical limitations delivery channels may have in communicating with consumers. For example the technology that delivery channels have available to offer the information should be considered, as well as the role of the insurer in explaining to consumers up-front that there is automatic renewal. Low renewal rates are a substantial concern among microinsurance providers, in Colombia as elsewhere, and automatic renewal provisions have offered a low-cost way to address this problem. These provisions can also be useful and valuable to consumers by helping to ensure continuity of coverage (offering the incentive to remain insured rather than “opting out”), but only to the extent they are made clear to consumers. One staff of an insurance company who participated in a workshop mentioned explicitly (and somewhat candidly) that MFI channels are good for renewals because clients often don’t even realize that they have the insurance, and this problem can be exacerbated by automatic renewals. Neither regulators nor industry express much concern about the potentially serious consumer protection implications of automatic renewals, noting that in general, insurers take a responsible approach to the issue. Given the various approaches that were observed, however, it seems that greater attention to these provisions is warranted. While automatic renewals can be useful for both providers and consumers, they must be used in a responsible and transparent manner.

Claims

Delivery channels typically facilitate claims by collecting documentation and information and passing it to the insurer. Delivery channels such as MFIs with closer and more regular relationships with customers tend to offer the most hands-on support. They can also, as in the case of the focus group participants discussed in Section 5.b.1 above, be helpful in informing beneficiaries of the fact that the insurance coverage existed, while other delivery channels are unlikely to be in a position to play this role. In the case of public utilities, call-centers are the primary source of support with claims.

Although fast payment of claims is often described as a crucial attribute of microinsurance products [see, for example, our Philippines case study in Section 4 above], this is not a critical area of concern in Colombia. Consumers and industry stakeholders are relatively comfortable with the regulation requiring insurers to pay within one month of submission of required documentation. Insurers are generally able to comply with this requirement, and have limited
incentives to speed claims payments or to treat mass-market or microinsurance products differently from traditional insurance. As such, processing and payment of claims under mass-market and microinsurance typically employs the same operational processes and protocols as other products. One exception we learned of was Bancoldex, which is designing a life insurance product that aims to pay claims within eight days. Another exception is in the case of cashless funeral insurance, which offers important value to clients by helping beneficiaries obtain documentation and offering benefits in the form of immediate services rather than (delayed) cash payments. This allows clients to avoid turning to more stressful financing mechanisms such as reducing consumption or taking out costly loans (Magnoni & Poulton, 2012), but regulation has recently begun to restrict the ability of insurers to offer these products. A forthcoming study by FASECOLDA on the claims times for their members should add more information to address this issue.

Documentation required for making claims varies depending on the product and insurer, with some requiring far more substantial documentation than others. For example, one accidental death product requires all of the following:

- A claims letter
- Birth certificates of the policy-holder and claimant
- Copy of claimant’s national identification card (Cédula de Ciudadanía)
- Death Certificate
- Original or copy of the insurance certificate
- Beneficiary identification documents
- Complete medical history

The products developed by Bancoldex stand out in their effort to require much less documentation than other microinsurance, with life insurance claims, for example, requiring only a death certificate and some form of identification of the deceased and beneficiary (See Appendix 5). This suggests both that it is possible for insurers to accept more limited documentation and that there may be some benefit from government intervention and advocacy on behalf of clients in this area.

From the consumer perspective, the one-month requirement for paying claims begins at the time of submission of all required documentation. As such, in practice, consumers who are confused about requirements or struggle to collect the required documentation may be paid much later. Our conversations with stakeholders suggest that some claims are either delayed or not submitted as a result of these requirements. Stakeholders also raised concerns that in the case of products with low claims ratios (for example those offered through supermarkets), beneficiaries are unaware of the insurance coverage. However, documentation requirements act as an additional disincentive to file claims. The insurers we spoke with routinely mentioned high rejection ratios or the need to reject claims when the cost of a product became too high, suggesting that insurers may be rejecting policies by arbitrarily tightening standards in response to higher-than-expected numbers of claims. Many consumers may be unaware of the one-month payment requirement or of the mechanisms available to them for complaining or questioning when there are delays. The focus group discussion described above provides an example of such a case, with some claims taking much longer than the prescribed month. Those claimants were unsure of the reason for the delay and did not know what they might be able to do to speed up the process.

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60 Insurers are restricted from requesting additional documentation after the fact to delay compensation. Article 100.3 OSFS.  
61 Example of life insurance claims requirement for non-accidental death for MFI clients of Bancamia (Insurer BBVA Seguros)
Questions, problems, and complaints

Each insurer in Colombia has a Financial Consumer Ombudsman dedicated to its portfolio of clients. Insurers with fewer policies in some cases share ombudsmen with other insurers. These ombudsmen do not have authority to manage complaints about rejection of claims (which must be submitted directly to the FS), but have authority to settle most other problems. The FS also requires that consumers have access to insurers directly either through their legal staff or another department of relevance to the complaint or inquiry. Dr. Venegas of Universidad del Rosario raised the issue of a potential conflict of interest in having the insurance company hire and pay for the ombudsman. The legal director of the “Confederación Colombiana de Consumidores,” (the most representative consumers’ association in Colombia), Dr. Juan Manuel Henao, shared Dr. Venegas’ opinion. One ombudsman we spoke with insisted that this role is very ethical and while there is potential for conflict of interest, it does not happen in practice. The Director of Consumer Protection of the FS noted that the conflict of interest is a concern, but that measures are in place to reduce this risk, as the FS has to validate and certify candidates. The Director mentioned that 35% of these candidates have been rejected by the FS, a clear sign that they will not “rubber stamp” any applicant. Applicants must have adequate knowledge, ethics and communication skills. Nonetheless, even if there is no actual impropriety in the actions of the ombudsmen, the appearance of some alliance with the insurer may limit their effectiveness and discourage some consumers from approaching them with complaints.

According to one ombudsman, complaints are often settled in favor of the insurer. The FS reports that of all financial services complaints in 2011, between 48% and 55% were decided in favor of the consumer. However, these complaints are predominantly made against banks. A 2012 annual report on complaints of the FS, validates that 74% of the complaints were filed against banking institutions, and only 12% against insurance companies. Of these relatively few complaints related to insurance, most are not for microinsurance or mass market but for voluntary vehicle insurance policies. Those complaints are most commonly related to disagreements about the value of vehicles (market value vs. purchase value), or to disagreements or problems with exclusions or claims filing processes. One ombudsman we spoke with noted that these complaints are generally resolved in insurers’ favor, because this information is disclosed when marketed to customers by phone and that all sales calls are recorded. Similarly, all in-person sales are closed by obtaining a physical signature in a document that clearly states exclusions.

While there are significant opportunities in place to raise problems with and make complaints against insurers, there are also potentially substantial obstacles. Complaints processes, even if they are very effective, cannot resolve all of these problems. Complex products that may not have been well understood by a policyholder or beneficiary can lead to dissatisfaction and disillusion, even if information about coverage was made available to these consumers. In some cases, a beneficiary may not be aware of coverage at all. In such cases, the insurer may not be found to be at fault and a claim may be denied, but damage is done to the confidence and trust microinsurance consumers have in products and providers. Such problems may be more effectively addressed earlier, through measures to ensure that consumers are adequately and appropriately informed of the products, given their level of financial literacy and the channels through which those products are delivered. Reducing exclusions, for example, combined with clear communication about coverage and requirements, may do much to avoid problems before they lead to complaints. However, exclusions appear to be a common “crutch” for many insurers to include in their products in order to control costs and manage rejections more closely.

Where complaints processes may be effective in resolving remaining problems, it is important to ensure that they are truly accessible to low-income consumers: consumers must be aware of their existence and understand how to use them. Efforts to track complaints and rejections of claims can be helpful in raising red flags in this area. The Legal Director of the Confederación Colombiana de Consumidores mentioned that some low-income consumers may not be aware of their rights as consumers and the spaces available for their complaints. The Director also indicated that even though his organization is not entitled to deal with complaints from financial consumers, they receive many because consumers do not know what the available mechanisms are and which channels are appropriate under which circumstances. Financial education activities and materials such as those offered by FASECOLDÁ cover this information, and while relatively large, it will take time and money before they are disseminated and absorbed at a mass scale. Additionally, low-income consumers may feel disempowered to approach an ombudsman or government office to complain, and might continue to rely on their direct contact with a loan officer, for example, even if they are informed of their rights to present complaints. These challenges highlight some of the complexities of working in a space where low-income consumers may have few personal and political tools to pose complaints against insurers. Efforts to increase their awareness and empowerment take time, but have shown to be effective in some developed markets.

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62 In some cases these are shared among insurers.
63 According to Articles 56.3, 57-58 of SCP.
64 See also Camargo (2012), 10-11.
66 Available at: http://www.superfinanciera.gov.co/
iii. Financial soundness of provider and program

Given that the risk carriers in Colombia participating in the microinsurance are licensed insurance companies subject to quite stringent prudential regulation, the risk of financial instability of the provider is relatively limited. In Colombia, insurance activity can only be performed by authorized shareholder companies and insurance cooperatives. The prudential requirements of insurers include minimum capital according to the type of insurance, appropriate technical assets/capital, certain solvency margins, a special regime for technical reserves and a special investment regime. Insurers must be licensed separately for life and non-life insurance products, and products must be filed with the FS, which has the authority to prevent insurers to offer products.

The question of the financial sustainability of the microinsurance programs offered by those providers, however, is a far more difficult one to answer. Insurers repeatedly raised concerns about the commission rates charged by delivery channels [see Section 5.b.ii above], and about the cost and difficulty of reaching microinsurance consumers. The challenge of balancing appropriateness of product and process design for low-income consumers [which often requires eliminating exclusions, using high-touch methods, and/or working with specific delivery channels that have existing relationships with those consumers] with the cost of these measures is difficult. This challenge is likely to become even more substantial as insurers move beyond the “low-hanging fruit” to reach poorer and more rural consumers [who are both more price-sensitive and more vulnerable in many respects] with microinsurance, and concerns about the sustainability of programs will become even more crucial.

How best to ensure the sustainability of microinsurance programs is a difficult question to answer. The FS can review products filed by insurers, but is unlikely to be in a position to assess their sustainability. Commission rates could be capped, but these requirements can be difficult to enforce, might discourage some delivery channels from offering microinsurance, and are not the only barrier to sustainability. Work-arounds, such as those that microfinance institutions have implemented to offset interest rate caps can also be expected over time. Allowing commercial insurers to operate in this market at scale [a key element of sustainability in this market] appears to be one of the few clear solutions to this question. A requirement that insurers exclusively target “micro” customers with low-premium products [as some government authorities suggested they are considering], for example, may be a barrier to reaching scale.

Non-traditional delivery channels that are not regulated or supervised by the FS are not subject to specific oversight regarding their financial transactions with insurance. In practice, because insurance is issued to these delivery channels as group policies and paid annually up front, their financial solvency is not a critical issue from the consumer’s perspective. However, it may become an issue of greater concern if these delivery channels are used in the future for individual policies.

There is no specific financial reporting obligation to the FS on microinsurance. Nonetheless, FASECOLDA’s Microinsurance Committee has diligently reported information to the public on the microinsurance products of its members on a voluntary basis through FASECOLDA’s website. Additionally, insurers are obligated to file their accounts, certain financial and investment information and balance sheets with the FS, though these do not specifically disaggregate microinsurance or mass-market activities. Insurers are also required to report to a statistical unit of the FS [“Unidad de Informacion y Analisis Financiera”] on all cash transactions. Additional information may be required at the discretion of the FS. Regulation of privacy of data between the insurer and the end-consumer is subject to general rules.

iv. Capacities and responsibilities of various stakeholders

The various stakeholders involved in the effective protection of microinsurance consumers play an integrated role in securing this protection. Colombia’s regulatory framework is strong and generally effective in ensuring a broad system for consumer protection, particularly for the programs involving distribution through public utilities, banks, and MFIs, which comprise the majority of the existing microinsurance market. It has achieved this without a specific framework for protecting low-income consumers, but instead with an overall view to ensuring ethical delivery of insurance products system-wide. This is mostly effective, though the challenges of working with low-income consumers who may not be aware of insurance or sufficiently empowered to advocate for themselves should not be underestimated. However, while specific and intentional violations of consumer protection are not commonly observed, insurers contribute relatively limited resources to consumer protection, a result of both the distance between insurers and customers and the high distribution costs of microinsurance. Instead, the burden of protection is shared across stakeholders.

67 Articles 80, 82 and 186-187 OSFS; 2.31.1.1.1., 2.31.3.1.1 to 2.31.4.1.11 of Unique Decree and Decree 2953/2010.68 These include charging additional fees for loans, as well as offering products such as insurance to increase revenues.
69 Article 95 and 97 OSFS.
70 Articles 97 and 140 OSFS.
71 Article 67 FCPR.
Some regulatory requirements shift the burden of providing consumers with education and grievance mechanisms from the state to the private sector, recognizing the government’s limited resources and expertise in this area. The Colombian insurance association, FASECOLDA has made a good faith effort to support the microinsurance market by collecting data on microinsurance usage, developing and disseminating a comprehensive financial education campaign, and advocating for the industry vis-à-vis the regulator. MFI delivery channels as well as public utilities typically train representatives to fully disclose information and offer support to consumers throughout the processes of buying and using products. Where consumers are seen as particularly vulnerable, such as in rural areas, government agencies have played a role in advocating for consumers by supporting the design of new products, training, and financial education efforts. In the case of supermarkets and other retailers, legal restrictions limit their participation and potential activism in offering consumers information. New initiatives such as Suramericana’s new packaging of off-the-shelf insurance products with the supermarket chain Exito, offer a way for supermarkets to disclose information on packaging without compromising the time or legal restrictions of their cashiers.

Consumers themselves require basic access to information that allows them to make informed decisions. How this information is provided is in Colombia largely determined by delivery channels, which have a closer relationship to the consumers than do insurers, who primarily issue group policies and have little contact with or knowledge of end consumers. This responsibility can often be onerous, and it relies on an alignment between the incentives of the delivery channel and those of consumers that may exist in theory, but not always in actuality. In general, we perceive incentives to be aligned: delivery channels want to improve customer loyalty and offer their customers good service throughout their product lines. In practice, however, incentives become more complicated and nuanced. Microfinance loan officers may be busy assessing loan applications, cashiers may face long lines and day-to-day pressure, and call center operators may miss uncertainty or doubt from clients and may leave questions unanswered. When dealing with questions, complaints or claims, these delivery channels may be even less prepared to resolve issues. Supervisory authorities have built in processes to address the issue of complaints, but there is uncertainty about whether these are truly appropriate for and used by low-income consumers. Complementary efforts for insurance education and awareness, either from government programs such as Bancoldex or from industry, such as the efforts of FASECOLDA, can help bridge some of these information gaps. Additional and larger-scale efforts might be warranted as the market develops and reaches even lower-income consumers, including rural customers with low financial literacy.

The responsibility of consumers themselves is often overlooked in the discourse of consumer protection in microinsurance in Colombia. This is interesting in light of the efforts to engage low-income segments in taking greater responsibility for their borrowing decisions through the promotion of financial education efforts and the use of credit bureaus. Both borrowing and (typically) buying insurance are active decisions on the part of the consumer and as such must entail some level of responsibility. As such, consumers should be engaged more fully in consumer protection efforts in particular, through education and information. Providing the appropriate level of information in a voluntary, non-coercive environment can lay a foundation for empowered customers to make decisions about these products and to use them effectively.

c. Lessons

Since the 1990s, Colombia’s microinsurance market has grown organically, without much intervention from government or supervisory authorities. Insurers and delivery channels have driven this growth, within a solid, yet relatively flexible regulatory framework. This framework allows insurers to offer group policies with individual certificates for end clients under various delivery schemes [with perhaps some questions as to how widely the concept of group insurance can be interpreted]. They have also been able to benefit from some flexibility in the rules that favor smaller policies. Specifically, these are the less stringent “know your customer” requirements for purchases of small policies. This regulatory framework has kept the administrative costs of microinsurance down, despite the large burden of the cost of delivery. This cost is primarily reflected in the quite large commissions (varying between 30-50% of total premium cost) charged by delivery channels to handle much of the programs’ marketing, enrollment, payments collection, and claims support. The existing regulatory framework, including consumer protection measures, has generally allowed for this business model to function smoothly.

Our survey of Colombian insurers illustrates that insurers feel some cost burden from consumer protection measures. This may not be because the costs are high per se [we find that in practice, the laws related to consumer protection can often be complied with at relatively low cost], but because of the high sensitivity to cost in microinsurance. These products collect small premiums but are subject to the same processes as traditional insurance in marketing, enrollment, payment collection, complaints management, and claims processing. At the same time, price-sensitivity among target clients exerts pressure to keep costs down. It is not surprising that insurers perceive consumer protection to be yet another cost burden that challenges their efforts to offer microinsurance. According to responses to our survey, this burden may be limiting product innovation and price cuts that consumers would benefit consumers. Though given other costs, including for example the high cost of commissions for delivery, it is unlikely to be the only cost burden standing in the way.
Despite some dissatisfaction with the cost of compliance, stakeholders demonstrate an overall sense (with some exceptions) that consumers should be protected and that insurers should follow the law with prudence and care to protect them. In fact, 19 of 33 insurers responding to our survey (58%) noted that their companies implement greater measures than those required by law to protect consumers. None believed current measures to be excessive, and 38% noted that they were insufficient. Perhaps insurers have already been reading some of the “clues” that we uncovered such as low claims on some products, limited complaints by low-income customers to the designated authorities, and low renewals. These clues suggest that consumers may be insufficiently provided with the tools they need to make appropriate choices or express grievances.

One crucial question at hand in Colombia today is whether additional regulation would, on balance, benefit consumers. There appears to be no clear-cut response, in particular when considering the value to the consumer of new measures, yet many possibilities are being discussed by local experts. Defining “microinsurance” and subjecting it to separate regulation has been discussed. However, this may discourage insurers from categorizing a new product as a “micro” product, unless microinsurance regulations also carry sufficient benefits for insurers. Even then, separating a “micro” product from one that reaches a mass market may be unattractive where scale is the primary determinant a business line’s viability. More stringent requirements for training of delivery channels or content of training may not add much value in terms of the extent to which consumers internalize and use information. There is no “best practice” content that is certain to be effective, for example, so any attempt at regulating this would be somewhat arbitrary, but would likely add to costs of delivery. Greater written disclosure of information to consumers for specific “microinsurance” products might encourage insurers to avoid microinsurance altogether and stick with a mass-market model (through group policies) offering only low price products available to the general public. Restricting this option might cut off access to some products altogether if processes are too difficult or costly to change. Requiring a shift away from group to individual policies could greatly increase delivery costs and push insurers to either invest in IT infrastructure or discontinue product offers.

Where improvements may be opportune, they must be accompanied with changes in the business model of delivering insurance. High distribution costs and a lack of direct contact between insurers and consumers leave consumers with products that may be less than ideal (particularly in terms of exclusions and documentation requirements for claims). Similarly, they limit insurers’ ability to change these terms because of high costs leave little room for adding risk. Regulating distribution has been proposed as a solution, but it is difficult to see how this could help expand access rather than restrict access. Instead, market approaches that improve transparency and competition, as well as investments by insurers to offer insurance in more cost-effective ways may help reduce some of these costs of distribution.

If more costly regulatory changes are to come, these changes could benefit insurers willing and able to make large investments aimed at reaching greater scale to the detriment of smaller insurers, and possibly also smaller delivery channels, with more limited scale and infrastructure. Perhaps an expectation of some changes in regulation is driving the existing perception, mentioned above, that consumer protection is burdensome, as well as a belief that the future will involve greater protection measures rather than fewer (see Figure 5.7).

While a total overhaul of a generally well-run system seems unwarranted, small “tweaks” could substantially improve the effectiveness of microinsurance consumer protection in Colombia. Understanding that beneficiaries may often be unaware of a family member’s coverage
suggests that at minimum, financial education and marketing efforts should be more inclusive of all family members and not just target groups. Conveying clearly to the consumers who enroll the importance of sharing this information with family members can also help. Such changes may be hard to regulate, but relatively simple to promote in practice. Automatic renewals can be useful, but can also be used as excuses to avoid confrontation with clients who are either unaware or dissatisfied with coverage, especially when they are disclosed only at initial policy enrollment. More attention should be paid to ensuring that automatic renewals are very clearly communicated to consumers, and reminders may often be necessary. Claims processes that are onerous and subject to some discretion regarding rejection reflect the difficulty of maintaining profitability in this market, but in turn, reduce both the actual and perceived fairness of microinsurance. This could have negative consequences for the image of the sector over a longer term. Finally, the delivery of mass-market products through retail channels is an extremely passive activity. Whereby consumers get little or no information until after the sale, suggesting that they are not sufficiently informed. Additionally, if cashiers were permitted to sell insurance and trained to more actively disclose information, it is unclear that they would set aside their primary duty, especially on busy days where customers are lined up outside. Supermarkets and insurers appear to be coming to this realization on their own, setting up customer service booths to sell insurance in an environment more conducive to providing sufficient explanations (Carrefour/Mapfre) or selling insurance off-the-shelf to consumers who must read the contents before determining whether to buy, but are at least provided with the necessary information (Exito/Suramericana).72

Determination of the specific “tweaks” that can strengthen the existing consumer protection framework should be based on a profound understanding by the regulatory authorities of the costs and benefits to such changes. Currently, the understanding of microinsurance, its delivery practices, and consumer needs and behaviors is somewhat limited and concentrated within a very small group of policymakers. Closer monitoring of client data, more extensive exchanges among stakeholders, and dissemination of practices would benefit policymakers as well as donors seeking to strengthen regulation, and specifically the protection of potential and existing consumers of microinsurance.

The tensions around potential changes in consumer protection regulation, as well as other regulatory requirements for microinsurance are particularly important to consider in the case of Colombia. Despite some gaps in the effectiveness of consumer protection efforts, stakeholders are generally aware and committed to the concept of protecting consumers. However, it would be imprudent to extrapolate the relatively “laissez-faire” case of Colombia as “best practice” as it is tied inextricably to the unique context of today’s political, institutional and business environment. A strong regulatory framework for insurance as a whole, a strong insurance association, strong ethical business approaches in many insurers, and a relative maturity in the microinsurance market act together to limit the application of unfair practices by insurers. Contexts differ worldwide but can also change domestically. As such, it is critical for the authorities to closely monitor stakeholders, to analyze their financial education, marketing and enrollment practices to understand whether information to consumers is understood and used to make choices and use products effectively, and to ensure that flexibility is not replacing basic protection. Building the capacity of the regulator to the monitor these factors can help to ensure that a relatively open and flexible framework does not lend itself to abuse in the future.

72 These are accompanied by stands that offer access to further direct information.
6. Summary and conclusions

The examples in Sections 2, 4, and 5 of this paper, while by no means comprehensive, highlight the broad range of consumer protections concerns that can arise as well as the complex relationships among different consumer needs and the roles of different stakeholders in promoting consumer protection. We conclude by revisiting the concept of consumer protection in light of these lessons, and by suggesting measures that can improve the ability of stakeholders to meet consumer protection needs going forward: interventions that can help to achieve the best balance of roles and responsibilities under current conditions, and capacity-building interventions that can improve stakeholders’ abilities to meet consumer protection needs over time. Both should be revisited continually in light of market changes and ongoing monitoring efforts to ensure that they are effectively responding to consumer protection needs.

a. Viewing consumer protection as an outcome

In light of the lessons learned through the examples highlighted above, we return to the question of “what is consumer protection?” Our understanding of consumer protection as the effective use of microinsurance products by low-income consumers to protect themselves against risk emphasizes the view that consumer protection is an outcome; it is not a system or an infrastructure to be used to protect consumers, but the protection itself. As such, effective consumer protection relies on a coordinated, balanced approach in which all stakeholders, including consumers themselves, share the burden. A shortcoming of any one party can act as a total barrier to achieving the outcome of consumer protection. For example,

- Insurers may offer “good” microinsurance products, but those products cannot effectively protect consumers who do not understand what is covered or how to use those products.
- Even educated, empowered, and informed consumers are not protected if they do not have access to appropriate products, or if the processes needed to use those products break down.
- Delivery channels may in many cases be effective advocates for consumers’ interests, but if consumers lack the incentives or tools to navigate the processes of owning and using a microinsurance product, they are not protected.
- Regulators and supervisors can also support consumer protection efforts, but consumers are not protected if supervisors lack the capacity to monitor other stakeholders’ actions to ensure accountability.

Even if other stakeholders carry out their obligations flawlessly, a particular consumer might fail to be protected if that consumer does not carry his own share of the burden. This might result from her failing to listen to a policy description that is provided in a clear and appropriate manner, or by her neglecting to inform beneficiaries of the existence of insurance coverage after the importance of doing so is made clear to her. However, widespread gaps in consumer protection can rarely be blamed only on consumers themselves, and most often point to some shortcoming in products, processes, or capacities that can be improved by shifting responsibilities and/or increasing the capacities of one or more stakeholders.

Our focus on outcomes requires constant consideration of the consumer perspective and how consumer protection requirements and efforts of various stakeholders work in practice for consumers. In particular, any consumer protection effort must be informed by the challenges and problems that are likely to be faced by the consumer as well as the parties that are best equipped to provide support in overcoming those challenges. At this stage, it is also important to remember that the consumer is not always the microinsurance policyholder; she may be a low-income person who has not yet purchased insurance, or a certificate holder under a group policy, or the beneficiary of her spouse’s insurance. Consumer protection efforts that are effective from the perspective of one of these consumers may not work for another.

Efforts to improve consumer protection fall into one of two broad categories. The first aim to re-balance the roles and responsibilities given to the various stakeholders in light of the current market, context, and capacities. The second, capacity-building interventions, address the abilities of stakeholders to carry out their respective roles and responsibilities effectively. Both rely on ongoing monitoring of consumer protection needs, efforts, and the effectiveness of those efforts.

b. Improving consumer protection by re-balancing roles and responsibilities

These interventions speak to the balance of responsibilities for consumer protection among stakeholders. These roles and responsibilities should be appropriate in the immediate term, given the existing market conditions and the capacities and incentives of all stakeholders, and should be revisited continually as conditions change and as capacities increase.
Consumers should be engaged as active participants in protecting themselves. The amount of responsibility for consumer protection that is left to consumers depends on who those consumers are, on the complexity of the products and processes involved, and on the capacities, responsibilities, and incentives of other parties. In order to effectively play this role, consumers must have clear information, at the appropriate times, about the products and relevant processes. In order to use this information effectively to navigate the processes of choosing whether to purchase, purchasing, maintaining, and using insurance policies, many consumers will need support in the form of additional resources and in the form of capacity-building (primarily through more general education efforts), as described below.

Governments can and should take a leading role to engage other stakeholders to assess the consumer protection needs of the market, to share the burden of monitoring and enforcing measures to protect consumers, and to adapt measures as appropriate. Lack of capacity and information will necessarily lead them to outsource a portion of this role to other stakeholders (for example, by leaving the content of required financial education for microinsurance consumers largely to the discretion of providers, as is the case in Colombia); such outsourcing is not necessarily wrong, as long as consumer protection outcomes are monitored in some way on an ongoing basis to ensure that needs are met responsibilities are carried out.

The appropriate role of market players in consumer protection varies according to the relationships these players have to consumers and the incentives they have to represent consumer interests. This role also highlights the tension between protection (which can under some circumstances be restrictive and burdensome) and facilitating broad access to insurance, which often depends on more lenient processes and involvement of a broader range of providers and delivery channels. To mediate this tension, the consumer protection challenges arising through involvement of a broader range of market players can be compensated for with changes to the roles and responsibilities of various stakeholders. In the absence of strong regulatory protections, collective standards for consumer protection may also emerge through initiatives of industry associations. The case of Colombia offers a good example of these industry efforts.

In delivery of microinsurance, MFIs provide an example of channels that often (but not always) have close ties to microinsurance consumers and strong incentives to advocate for them and represent their interests. Our case study in the Philippines shows that the interest of these channels often lies in ensuring their clients are satisfied and well-served. Retail, cell phone or other non-traditional delivery channels that may be linked to low-income consumers often have weak or non-existent ties or incentives to protect, but have great potential to increase access to insurance to larger numbers of microinsurance consumers, including many who are excluded from more traditional delivery channels.

Where such non-traditional delivery channels are active, additional consumer protection measures may be appropriate, including additional efforts to ensure that consumers understand products before they purchase them and know how to use them after. At a minimum, some information should be disclosed prior to sale. Efforts to disclose information can be difficult, however, when delivery channels are unlicensed (as retail outlets typically are), as they typically are not permitted to “sell” the insurance and as such can provide very little verbal information. Written disclosures are an imperfect solution, as many microinsurance consumers may have difficulty reading or understanding them, even if they are simple and written in clear language. However, even if they are not understood, written disclosures can at very least alert consumers to the fact that the products involve some complexity. They can be especially effective when combined with market-wide efforts to offer consumers education about insurance and key insights as to what to look out for when considering insurance (see Section 6.c below).

Where delivery channels lack the capacity or appropriate incentives to carry out consumer protection responsibilities, it makes sense for the insurer to bear some of the responsibility. While insurers are often (but not always) less familiar with and less close to consumers, particularly low-income consumers, they are most familiar with the details of insurance products and processes and the reasons for some of the more complicated particulars of those products and processes. At the same time, although as all other stakeholders, they have limited resources, they may often be less constrained than some other parties: they are often larger than the delivery channels they work with and almost certainly have more staff who understand the microinsurance products they offer and who can provide information and facilitate processes. Insurers are often quick to point to shortcomings in delivery channels and in consumers themselves in understanding, explaining, and using products, but slower than they might be in providing support to fill the gaps left by these shortcomings.

c. Capacity-building to improve consumer protection

Even the most appropriate allocation of responsibilities for consumer protection will be ineffective if stakeholders lack the capacities to carry out their roles. The allocation of roles and responsibilities discussed above should be made in light of the capacity constraints the country and the market currently face, with a view to increasing those capacities where possible to fill gaps and improve stakeholders’ ability to meet consumer protection needs in an effective and efficient manner.
Within governments, capacity-building is often needed at the regulatory and supervisory level. Insurance regulators and supervisors may be generally understaffed or under-resourced or lack the expertise to develop appropriate regulations and to supervise those regulations appropriately. In the case of microinsurance consumer protection, which involves new products, new consumers, and innovative designs and delivery channels, these problems are often exacerbated. In many countries there is limited domestic experience with microinsurance, and the field as a whole is still new enough that regulators and supervisors have few well-established best practices to turn to elsewhere. In this area, donors and other international stakeholders can be helpful in developing and sharing practices, supporting regulatory developments, and building expertise within government agencies to supervise adequately. Caution should be taken in assuming that “best practice” exists in protecting consumers in microinsurance. Most countries have quite new markets, with regulation typically following rather than leading market activities. Additionally, country and market contexts vary widely as do socio-demographic factors including financial inclusion, education and income levels than may influence consumer capacity and need. Finally, efforts must pay particular attention to the relationship between regulation and supervision, to ensure that regulations are devised in light of the supervisory capacity.

Capacity-building can also improve awareness and education efforts, in particular broad financial and insurance literacy efforts often led by governments or industry associations. These efforts can be made most effective when they involve coordinated efforts of government, donors, and industry, by tapping into the relative strengths of different parties. Governments often have the “purest” incentives to educate consumers in a way that does not inappropriately promote either insurance generally or specific products, but they can lack the expertise in developing effective messages and the budget and channels to deliver those messages. Insurers and delivery channels can bring to the table a better understanding of insurance products and of low-income consumers. Donors can bring funding (which is always a challenge in the case of public goods such as education) and experience and best practices from other contexts. As these awareness and education efforts improve, they will in turn work to improve the capacity of consumers to understand, evaluate, and use microinsurance products, and may in time allow for a shifting of greater responsibility to consumers to protect themselves.

Wide variety is often seen in the capacity of delivery channels to carry out consumer protection roles, even when they are similar types of institutions within the same country. In some cases, they lack the incentives to invest in informing consumers and representing their needs, and greater regulatory intervention may be appropriate. In other cases, they do invest substantially in obtaining the required licenses, training staff, and developing materials and processes for informing consumers and advocating on their behalf, but still may not be effective in reaching consumer protection goals. In these cases, support from insurers in training staff of delivery channels, developing appropriate materials, and acting as an ongoing resource can be helpful in building capacity. The general education efforts mentioned above, as they build consumer capacity, can also help to ensure that consumers are better able to understand and use the product-specific information communicated to them by delivery channels. Broader efforts to empower clients as consumers should be taken into account, and may help clients feel more comfortable raising questions or complaints when appropriate. Tracking results and customer awareness is critical to the effectiveness and capacity of delivery channels to offer insurance. The monitoring efforts we describe below can also be invaluable in understanding which of the disclosures, processes, and resources offered by delivery channels work and which do not.

At the insurer level, capacity-building is often needed in the ability to understand consumers and design products and processes appropriate to their needs, while balancing the need to keep costs low. In many cases, insurers lack experience with the low-income market, and struggle to design products that meet their risk management needs while accounting for their ability and willingness to pay. Delivery channels can provide support in this area, particularly those who have existing relationships and experience with target consumers. The joint efforts of some insurers and delivery channels in the Philippines to develop formal microinsurance products based on this existing knowledge, and often modeled after old, informal insurance products, provide an excellent example of this. Further capacity-building and support may often be needed in developing processes that are appropriate for low-income consumers while meeting insurers’ needs and staying in line with cost constraints. This capacity-building may often be best based on experience, in combination with effective monitoring efforts to ensure that microinsurance consumers are able to navigate successfully the processes of enrolling, maintaining, renewing, filing claims, and resolving problems. They can also benefit from knowledge-sharing efforts between providers and other stakeholders.

At the consumer level, first awareness and understanding, then specific information, and finally empowerment to use that understanding and information to represent their own interests and needs, are all crucial to effective consumer protection. Capacity-building is often needed in a number of different areas. First, as mentioned above, general awareness and education efforts [such as that of FASECOLDA in Colombia] can provide the foundation consumers need to understand insurance, to make reasoned decisions about when to purchase it, and to use it effectively. This general knowledge can support consumers’ ability to understand and use specific products, but creating a link between the two is often needed for both types of information to be most useful. As we discussed in Section 2.b and in the Colombia case study (Section 5), this link must be made carefully to ensure that consumers are not misled. Consumers need information not only about products, but also about the processes needed to use those
products and resolve problems if and when they arise. These different levels and types of information and education can work together to create more empowered consumers who know how to represent their own interests and have the tools and confidence to do so.

**d. The role of monitoring**

The efforts described above are difficult and often impossible to carry out effectively without a clear understanding of the real implications of consumer protection efforts on the outcomes of protection. As such, monitoring is crucial to understanding whether consumer protection measures, and specifically, the interventions discussed above, are working to actually protect consumers.

Monitoring can often be costly and time consuming, but some relatively simple tracking efforts can be quite effective in raising red flags. Insurers and others can track KPIs (see Section 2.d), specifically those related to complaints and claims by microinsurance consumers, to raise red flags in potential problem areas for follow-up. Low claims ratios, for example, may point to inappropriate products or to lack of awareness of coverage. High claims rejection ratios may indicate that consumers do not understand products or processes, that they receive inadequate support in navigating these processes, or that documentation requirements are too onerous.

Tracking complaints of microinsurance consumers, with insurers, delivery channels, and any other relevant parties, can also shed light on potential consumer protection concerns. Where similar issues arise repeatedly, some intervention providing additional information or modifying a process may be appropriate. Where (as is often the case in microinsurance), consumer complaints are low, this may be a signal that consumers are not aware of the appropriate channels for filing complaints or resolving problems, or for some other reason are unable or unwilling to use those channels.

More complex monitoring efforts may often be needed to follow up on these red flags or to understand other consumer protection concerns. Consumer understanding (and the effectiveness of education efforts and product disclosures) can be monitored through short surveys or quizzes to ensure that these efforts are effective. Conversations with consumers through individual interviews or focus group discussions can shed light on their concerns and on their expectations of microinsurance products. Conversations between different groups of stakeholders (such as those that informed the regulatory developments in the Philippines) can help all parties to better understand the many tensions at play and the perspectives, needs, and abilities of other stakeholders.

These and other efforts to understand and monitor the effectiveness of consumer protection efforts can help to inform the future activities of stakeholders in this crucial area as they work to ensure that consumers are able to use microinsurance products effectively to protect themselves against risk. Ultimately, consumer protection efforts can support the value proposition for microinsurance among low-income consumers and also for other stakeholders, as they increase trust and help to ensure that microinsurance is valuable, effective, and sustainable for all stakeholders throughout the value chain.
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Appendix 1. Assessment framework for country case studies

<table>
<thead>
<tr>
<th>Question</th>
<th>Legal obligation</th>
<th>Practice/activity of relevant stakeholders</th>
<th>Tensions, problems, &amp; gaps</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Information &amp; education</strong></td>
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<tr>
<td>This section refers to both general and specific education/information relevant to a microinsurance purchase decision: who provides and receives it, when, and what does it constitute? In particular, it should explore the possible tension between clarity and disclosure of sufficient information on one hand, and simplicity on the other. In this section it is essential to distinguish among: financial education strategies; disclosure obligations on insurers and intermediaries towards consumers; training obligations towards intermediaries/delivery channels; and marketing strategies,</td>
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<tr>
<td><strong>1.1. Financial education: general education on risk management and insurance</strong></td>
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<tr>
<td>1.1.1. What are the financial education strategies relevant to microinsurance in the financial sector (including education delivered by MFIs and other financial institutions) and, in particular, in the (micro)insurance sector?</td>
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<tr>
<td>Includes financial education and general financial information provided directly to consumers as well as financial education of those interacting with them (agents, delivery channels, etc., whether or not licensed)</td>
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<tr>
<td>1.1.2. To whom is financial education/training relevant to microinsurance provided?</td>
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<tr>
<td>May include prospective/current clients, licensed or unlicensed intermediaries, and others. There must be clarity regarding what constitutes financial education on one hand and marketing on the other to avoid misunderstanding.</td>
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<tr>
<td>1.1.3. Who provides it?</td>
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<td>Particular attention should be paid to the capacities, obligations and interests of the party providing the education.</td>
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<tr>
<td>1.1.4. What is the content of this financial education?</td>
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<tr>
<td>May include a) the importance of risk management, b) financial strategies for risk management, c) the role insurance can play, d) types of insurance coverage and how they work, e) what to consider when selecting/buying insurance, and other topics.</td>
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<tr>
<td><strong>1.2. Training, education, and information for intermediaries/delivery channels and other parties</strong></td>
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<tr>
<td>Includes both licensed/professional intermediaries and unlicensed distributors. Such training may be delivered by insurers, by the delivery channel itself, or by other parties.</td>
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<tr>
<td>1.2.1. To what extent is training on insurance and/or microinsurance provided to intermediaries/delivery channels?</td>
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<tr>
<td>1.2.2. What training programs are available?</td>
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<td>1.2.3. How are the programs delivered?</td>
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<tr>
<td>1.2.4. What are the contents of such programs?</td>
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</tbody>
</table>
### 1.3. Information disclosure to consumers

1.3.1. What information, if any, is disclosed to “consumers” [note that the term consumer embodies the policyholder, the insured and the beneficiary] at the following times?

1.3.1.1. Before enrollment (when the product is marketed and before the parties enter into the insurance contract)
1.3.1.2. After enrollment
1.3.1.3. On an ongoing basis
1.3.1.4. When a claim event arises
1.3.1.5. When a claim is made
1.3.1.6. When a claim is denied

1.3.2. How, by whom, and in what format is it provided?

1.3.3. To what extent does the information disclosed to consumers translate to awareness and understanding?

### 2. Product and process design

This section explores consumer protection implications of products themselves as well as processes throughout a consumer’s experience with the product. Possible tensions between simplicity and appropriateness in product attributes should be considered, as well as possible tensions between simplicity, cost, and flexibility, on one hand, and sufficiency of safeguards on the other.

2.1. Are the **products** themselves appropriate for the clients they are sold to?

*Tension between simplicity and appropriateness in product design should be considered, keeping in mind the needs, capacities, and financial sophistication of the target population. Appropriateness must be considered in light of the target clients (i.e. no mis-selling)*

2.1.1. What are considered critical components of product design to ensure that the product is appropriate?

2.1.2. To what extent are these reflected in the respondent’s products?

2.1.3. To the extent they are not reflected, why not?

2.1.4. Relevant KPIs: Incurred claims ratio; Renewal ratio; Promptness of claims settlement ratio

2.2. How are products **marketed** to prospective clients [content and method of delivery]

*This question may overlap with section 1.3 above, nevertheless keep in mind the difference between marketing and disclosure obligations. Regulation on false & misleading advertising may be relevant.*

2.3. What **enrollment** procedures are used (including disclosure/explanation of product, documentation required from consumer, policy documentation)?

*For both mandatory and voluntary products. This question may overlap with section 1.3 above.*

2.4. Are **cooling-off** periods applicable?
<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>2.5</td>
<td>What renewal/re-enrollment procedures are used (including notice requirements before enrollment lapses, possibility of automatic renewal)?</td>
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<tr>
<td>2.6</td>
<td>What safeguards and systems exist to protect consumers’ data?</td>
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<tr>
<td><strong>KPI guidelines on privacy of client data</strong></td>
<td></td>
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<tr>
<td>2.7</td>
<td>What safeguards and systems exist to protect the transfer of consumers’ money?</td>
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<tr>
<td>2.8</td>
<td>What are the consequences of failure to make premium payments, and what information/opportunity to fix the problem do clients get? Includes any information/notices sent to client upon failure to make a payment and/or cancellation of a policy, the timing of these notices (before or after cancellation), and any grace periods</td>
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<tr>
<td>2.9</td>
<td>What are the requirements for filing and supporting a claim, including deadlines, method of communication, and documentation requirements?</td>
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<tr>
<td>2.10</td>
<td>What, if any, standards exist for timely claims processing and payment of approved claims?</td>
</tr>
<tr>
<td>2.11</td>
<td>What is the process for notifying the consumer if a claim is rejected or approved or if additional documentation is needed? Does the organization track the claims rejection ratio and reasons for rejection?</td>
</tr>
<tr>
<td>2.12</td>
<td>What opportunities do consumers have to file complaints and appeal decisions internally? This question refers to the existence of an internal appeals process within the insurer or delivery channel, as well as the appropriateness and accessibility of that process (whether it is tailored to microinsurance clients, whether they are aware of its existence, and whether they can navigate the process successfully), and the extent to which it is actually used by clients Does the organization monitor the complaints ratio (nbr complaints/number of clients) and track the categories of complaints?</td>
</tr>
<tr>
<td>2.13</td>
<td>What opportunities do consumers have to file external appeals? This question refers to the existence and accessibility of a resource for external appeals or complaints beyond the insurer, such as an ombudsman within the insurance supervisor’s office</td>
</tr>
<tr>
<td>2.14</td>
<td>What other consumer protection measures, if any, exist?</td>
</tr>
</tbody>
</table>
### 3. Regulation; financial soundness of provider and program

This section refers to efforts to protect consumers from financially unstable providers and from unsustainable programs, considering the possible tension between protecting consumer from unstable providers/programs and promoting availability of microinsurance by reducing burden on providers and barriers to entry and engaging effective intermediaries. The implications of these regulatory requirements for different types of providers should be explored. This section focuses on understanding whether the relevant requirements are clear, understood, complied with, and enforced, and the extent to which they conform to international standards.

| 3.1. | What (if any) is the legal definition of microinsurance? |
| 3.2. | What are the licensing, capitalization, and reserve requirements for (micro)insurers?  |
|     | Relevant KPI: solvency ratio |
| 3.3. | What ongoing disclosure and reporting requirements are (micro)insurers subject to? |
|     | In particular, segregated reporting for microinsurance activities |
| 3.4. | What, if any, approval processes are microinsurance products subject to? |
| 3.5. | What licensing and approval processes are intermediaries subject to? |
| 3.6. | Do any unlicensed people or entities play a role in intermediation? |
| 3.7. | If so, what are the intermediation arrangements used to allow them to participate in the delivery of microinsurance products (i.e. commercial arrangements where the delivery channel is the policyholder of a group insurance)? Who is accountable for any wrongdoing caused by this delivery channel which affects the microinsurance consumer? |
| 3.8. | What processes exist for the formalization of informal providers? |
|     | And the consequences for consumers in terms of accessibility? |

### 4. Capacities of various stakeholders

This section explores the capacities of various stakeholders in light of the roles they play in consumer protection (including insurers, delivery channels, meso-level organizations, macro-level institutions, and consumers themselves). Particular attention should be paid to any efforts to increase the capacities of different stakeholders to play effective consumer protection roles.

| 4.1. | Who (insurance regulator/supervisor, other government authority, insurer, delivery channel, consumer, others) has primary responsibility for various areas of consumer protection? |
| 4.2. | To what extent is there synergy, redundancy, or conflict between the roles of different parties? |
| 4.3. | In what areas, if any, do parties lack accountability for effectively carrying out their consumer protection roles? |
| 4.4. | What efforts, if any, are made to increase the consumer protection capacities and/or responsibilities of stakeholders over time? |
Appendix 2. Group life insurance prototype policy (Philippines)

<Name of Life Insurance Provider>
Provider
<Provider address>
<Telephone Number>
<TIN>
(The Provider)

HEREBY ISSUES this Group Yearly Renewable Term Policy to

<Name of Policyholder>
(The Policyholder)

Policy Number : 000000003
Policy Effective Date : <mm/dd/yyyy>

POLICY PROVISIONS

Benefits
Subject to all conditions and provisions, <Name of Life Insurance Provider> will pay the benefits in accordance with the Insurance Benefit Schedule under this Policy, upon receipt and approval of due proof of death of the Participant.

Entire Contract
This Policy, the application of the Policyholder, the Participants' individual applications, if any, copies of which are attached and all attached riders and endorsements, constitute the entire contract.

Persons Eligible
Any person satisfying all of the following conditions shall be eligible for insurance under this Policy:
1. 
2. 
3. ... 

Beneficiary
The Beneficiary is the person designated to receive the proceeds of this Policy upon the death of the Participant, unless otherwise charged and provided that they are not disqualified under the law.

Effectivity of the Individual Coverage
The Individual Coverage becomes effective only when the Participant is alive and in good health on the date of payment of the initial premium. The term "Participant" shall be used to refer to any person who is eligible for insurance and covered under this Policy.

Certificate of Individual Insurance
The Provider shall issue to the Policyholder for delivery to each Participant an individual certificate setting forth a statement as to the protection to which he is entitled, to whom the insurance benefits are payable, and the conversion privileges to which he is entitled under paragraphs (h), (i) and (j) of Section 228 of the Insurance Code. In case of any inconsistency between such certificate and this Policy, the contents of this Policy shall prevail.

Conversion Privileges

1. Conversion Rights
The Participant may apply to convert his insurance into an individual life insurance policy, except term insurance, after it has been terminated under any of the following:
   a) He is separated from the Policyholder or is no longer eligible for coverage;
   b) He has been insured under this Policy for at least five (5) years and this Policy is terminated or amended, for an amount of insurance approved by the Provider after payment of the required premium for the individual life insurance policy within forty-five (45) days from termination of his insurance.

2. Insurance Benefit during the Conversion
If the Participant dies during the said 45-day conversion period, his beneficiary shall receive the amount of insurance he would have been entitled under a converted policy, whether or not the Participant had applied for conversion or had paid the first premium.

Payment of Premiums
Subject to the Grace Period herein provided, all premiums are payable by the Policyholder on or before the due dates at the duly designated offices or authorized representatives. The Provider will not accept premium payments directly from any Participant.

IMPORTANT NOTICE The Insurance Commission, with offices in Manila, Cebu and Davao, is the government office in charge of the enforcement of all laws related to insurance and has supervision over insurance providers and intermediaries. It is ready at all times to assist the general public in matters related to insurance. The Public Assistance Office of the Insurance Commission, with telephone numbers +632-5238461 to 70, is located at 1071 United Nations Avenue, Ermita, Manila. The official website of the Insurance Commission is www.insurance.gov.ph
Precipitation Rates Revision
Any revision in the Premium Rates shall take effect on any anniversary of the Policy Effective Date.

Renewal
This policy is automatically renewed upon payment of each premium due.

Grace Period
A grace period of forty-five (45) days from due date of the premium payment is allowed, after which if the premium is not paid, this Policy shall automatically terminate.

If the Insured should die during the said grace period, the unpaid premium shall be deducted from the benefit payable. The policyholder shall be liable for the payment of a pro rata premium for the time the policy is in force during such grace period.

Misstatement of Age
In the event the age of a Participant has been incorrectly stated, the Provider may adjust the premiums or benefits or both according to the correct age of the participant. If the participant is not eligible for coverage, the Provider shall refund all premiums paid.

Contestability
An individual coverage can be contested by the Provider within one (1) year from the effective date of his/her coverage or the date of last reinstatement of his/her coverage.

Suicide
Except for reason of insanity, the Provider shall not pay any death benefit if the participant commits suicide within one (1) year from the effective date or the date of last reinstatement (if any) of his/her individual insurance coverage. The Provider however shall refund the premiums paid on behalf of the Participant.

Minimum Participation
This Policy is a <contributory/non-contributory> Group Policy. The minimum number of Participants required to be covered under this Policy shall be.

Termination of Group Policy
This Policy shall automatically terminate on the earliest of the following:
1. date of receipt of a written notice from Policyholder to terminate this Policy; or
2. end of grace period if the premium remains unpaid; or
3. date of the Provider’s written notice of termination to the Policyholder when the number of the Participants falls below the required minimum number.

Termination of Individual Insurance
The insurance of any Participant shall terminate on the earliest of the following:
1. date this Policy terminates in accordance with the Termination of Group Policy Provision; or
2. date the Participant ceases to be eligible for insurance under this Policy as stated in the Persons Eligible Provision; or
3. upon the expiration of at least thirty-one (31) days after the Provider’s written notice of termination to the Policyholder when the number of the Participants falls below the required minimum number; or
4. date the individual insurance of the Participant expires.

Notice and Proof of Claim
Notice of claim must be submitted to the Provider within thirty (30) days and proof of claim within ninety (90) days from date of death, except when it can be shown that failure to submit the notice and proof within such time is due to valid reason.

Claims Settlement
Claims under this Policy shall be settled within ten (10) working days upon receipt of complete documents.

Availability of the Group Policy
The Group Policy on file with the Policyholder shall be made available to the Participants for inspection during regular office hours of the Policyholder.

Limitation of Complaints
Any complaint or grievance on this Policy must be filed with the proper authorities within (x) years from the time of rejection or denial of the claim. The venue for filing of complaints and grievances on the Policy must not be limited to the place of issue of contract.

Dispute Resolution
All disputes arising in connection with this Policy shall be initially settled through alternative dispute resolution mechanism.

<Authorized Signatory/ies>
<Designation>

IMPORTANT NOTICE The Insurance Commission, with offices in Manila, Cebu and Davao, is the government office in charge of the enforcement of all laws related to insurance and has supervision over insurance providers and intermediaries. It is ready at all times to assist the general public in matters related to insurance. The Public Assistance Office of the Insurance Commission, with telephone numbers +632-5238461 to 70, is located at 1071 United Nations Avenue, Ermita, Manila. The official website of the Insurance Commission is www.insurance.gov.ph
Appendix 3. Key features of “regulation on consumer protection applicable to microinsurance” in Colombia

Informed consent and informed consumers: Insurance contracts are “contracts”. Therefore, the role that information plays is essential in order to guarantee the free and informed consent of the parties to enter into a contract. In this vein, Article 97 of the OSFS and Art. 3 of the FCPR highlight the importance of informed consent. Indeed, amongst the six principles that govern the relationships between consumers and supervised entities, three aim to provide a solid background to guarantee informed consent. Those principles are: due diligence, transparency and financial education. In this context, the purpose of disclosing information is to provide consumers with the necessary tools to make informed decisions, to facilitate the appropriate comparison between the options offered in the market and to ensure that consumers are aware of the rights and obligations agreed in the contract. In respect of financial education, the FCPR recognize it as being: a principle of protection, a right of the financial consumer, a protection practice, a specific obligation on supervised entities, including on insurers, an objective, and an instrument of the intervention of the State. In respect of the “general consumer”, the SCP recognized “education” as a principle and as a right of the consumer. In addition, the financial consumer has the right to receive information from the supervised entities and, respectively, supervised entities have the obligation to provide information to the consumer. The SCP also focuses on the importance of access to appropriate information by consumers and recognizes that the consumers have the right to receive information. In addition, the FCPR and the SCP clearly indicate which information has to be disclosed and how and when it is disclosed. The importance of informed consent also is reflected in the “regulatory framework for insurance”, given that the OSFS, the Commercial Code, and other specific regulations of the FS, such as the BLC, establish clearly which information has to be disclosed and in which way this has to be done. For instance, this is done by the regulation of the contents, the form and the language used in the policy documents, or by the regulation of “adhesion contracts”, the type of contracts used in insurance. There are two important features that we would like to mention. First, the “derecho de retracto” (a cooling-off period) recognized in Article 47 of SCP. This cooling-off period provides the consumers with a period of 5 days after entering into the contract in which to consider the terms and conditions of the contract and its appropriateness according to their needs. If the consumer decides that the contract is not what he expected, the consumer has the right to retract. The second interesting feature is the “Unique register of insurance” (Registro Único de Seguros) for life insurance and civil liability insurance. Such register is a database, which is available to the public through the FASECOLDA website. The purpose of this register is to provide reliable information regarding the existence, validity and the parties of life insurance and civil liability insurance policies. This information helps the users of the register to verify if they are beneficiaries of any life or civil liability insurance.

Market conduct rules: In distributing insurance products, insurers can sell their products directly, or they can use insurance intermediaries. Insurance intermediaries in Colombia are strictly regulated. They comprise: brokers, agencies and agents. The insurance intermediaries are licensed to perform intermediation activities subject to the verification of their competences and compliance with financial requirements. The insurer is responsible for the acts of agents and agencies to the extent that the intermediary is acting on its behalf. Depending on the aggregate amount of commission earned each year, the FS may not be required to supervise agencies. In such case, the insurers must maintain a register of such non-supervised agencies and agents. However, the FS can impose sanctions on the insurance intermediaries even if they are not permanently supervised, if the FS can prove that such intermediary

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73 If consent is not provided in such way, the contract is void, and when a contracting party provides his or her consent, but it is vitiated by error, willful misconduct or duress, the contract is void. Arts. 1502, 1508 and 1516 Colombian Civil Code. In relation to the implications of this in microinsurance: A. CAMARGO, Protection of the microinsurance consumer: confronting the impact of poverty in contractual relationships, Microinsurance Innovation Facility/ILO Research Paper 27, December 2012, pp. 10-11.

74 The principles are due diligence; freedom of choice; transparency; responsibility of the supervised entities during the complaints procedure; appropriate management of conflicts of interest; and financial education [Art. 3 FCPR].

75 Article 9.3. of Circular Externa SFC 038/2011.


77 Article 31 FCPR.

78 Article 5d FCPR.

79 Article 6 FCPR.

80 Articles 7i and 8i FCPR.

81 Article 23a FCPR.

82 Article 24s FCPR.

83 Articles 1.3. and 1.11. of SCP.

84 Article 5a of the FCPR.

85 Article 7c FCPR, Article 97 OSFS; Articles 3b and 4b Circular Externa SFC 015/2010; Article 9.1. Circular Externa 038/2010.

86 Article 1.2. SCP, Article 2.1.3. and Title V of SCP.

87 Insurers have to file their standard form policies with the SFC, though policy approval is only necessary when the insurer is authorized or when it wants to initiate a new line of business of insurance. For more detail on these regulations please refer to the assessment framework applicable to Colombia Annex X.

88 Article 47 FCPR, Decree 3680/09 and 2775/10.

89 Articles 48-49, and 54 OSFS; Article 2.30.1.1 WC. Decree 2555/2010.

90 Article 2.30.1.1.5 Unique Decree.

91 Article 2.30.1.2.5. Unique Decree.
did not comply with the law in the exercise of the insurance activity. In addition, to the insurance intermediaries, insurance cooperatives can make use of their cooperative networks as intermediaries. Also, insurers and insurance intermediaries, when they comply with the requirements provided by law, can commercialize certain insurance products through the networks [such as the offices, the staff and the information systems] of certain supervised entities [bancassurance]. Decree 2233/06, which was modified by several regulations such as Decree 2672/12, allowed certain supervised entities to provide certain financial services through the NBC. These can be viewed as part of the network of a bancassurance agreement if they comply with the requirements. According to the rules of bancassurance, the insurers must train the staff that is involved in the commercialization of the products, otherwise they must use their own staff. In addition, the separate roles of the credit institution and the insurer must be clearly distinguishable by the consumer. It is noteworthy that a list of information must be disclosed to the consumer when a supervised entity uses an NBC in the distribution of an insurance product. This information ensures that the consumer is aware of the identity of the NBC and that of the supervised entity, who is responsible for any wrongdoing, the limitations of the authorized activities of the NBC, any costs, amongst other information. In addition, the supervised entity using an NBC must provide training to the NBC during the term of the contract and cannot delegate decision-making to the NBC in respect of consumer contracts. If an NBC performs activities that are restricted to supervised entities, the sanctions under article 108 of the FLFS will apply, as will certain criminal sanctions.

In relation to the performance of the contract, claims handling and payment of compensation, it is noteworthy that the Colombian regulation provides that the premium must be paid during the month after having received the policy, unless the parties have agreed otherwise. Failure to pay by this deadline will result in the automatic termination of the contract. With respect to insurers, they are required to pay claims within a month after the claim (being from the date on which the insured party proved his or her right to receive any compensation). Once this deadline has elapsed the insurer must pay interest and, if the consumer has suffered any loss because of such delay, the consumer is entitled to obtain compensation for such damages. Additionally, insurers cannot require more formalities than those prescribed by law. Any attempt to impede or delay unjustifiably the performance of the obligations of the insurance contract, could result in the insurers’ licenses being revoked. Indeed, supervised entities cannot request that the consumer provides information that is already available to them or to their branches, regardless of the obligation on the consumer to update such information. Supervised entities must avoid conduct that could constitute “contractual abuse”, which could affect the “equilibrium” of the contract [between insurers and consumers] and could entail abuse of the insurer’s dominant contractual position. It is also important to mention that Articles 11 and 12 of the FCPR, Circular Externa 039/2011 and 042/2011 list abusive clauses and practices. In the first case, the effect of including such clauses in contracts is that such clause will be deemed to be removed and therefore will not bind the consumer. As another way to protect the consumer, Article 34 of LCP establishes that the general conditions of the contracts will be construed in the most favorable way for the consumer. A notable aspect of Colombia’s consumer protection regulation, is the creation of a Financial Consumer Care System (FCCS) that supervised entities must implement. The FCCS’s purpose is to: (i) internally consolidate within each supervised entity a culture of care for, respect of and service to, financial consumers; (ii) adopt systems to disclose information; (iii) improve consumer care procedures; (iv) and promote the protection of consumers and financial education. The FCCS will contain: (i) policies, procedures and controls within the supervised entities to protect the consumer in an appropriate manner, encouraging care and respect; (ii) mechanisms to encourage compliance with the principles, obligations and rights recognized in the FCPR and in other instruments; (iii) mechanisms to provide appropriate

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92 Article 2.30.1.2.6. Unique Decree.
93 Law 79/88 – cooperatives law.
94 Article 2.34.1.1. of Unique Decree modified by Article 1 Decree 2673/12.
95 The supervised entities mentioned are: credit institutions, financial service companies, stockbrokers companies, investment management companies, and management companies of centralized deposits. Art. 93 OSFS, Art. 5 Law 389/97, Art. 3. Decree 2672/12, Articles 2.31.2.2.5. of the Unique Decree, modified and added recently by Art. 3 Decree 2673/12: modifying certain articles of Unique Decree.
96 The credit institutions, investment management companies, stockbrokers companies, management companies of pensions funds, trust companies, and foreign exchange brokers.
98 Article 2.34.1.3. Unique modified by Article 1 Decree 2673/12.
99 Article 2.1.6.1.4. of Decree 2555/2010, modified by Decree 2672/12. In addition, the supervised entities must send the model contracts with the NBC to the FC, to be approved prior to entering into them with the NBC. They must also maintain updated and complete information regarding such contracts. Art. 2.1.6.1.7. Decree 2555/2010.
100 Articles. 2.1.6.1.3. and 2.1.6.1.4. Decree 2555/2010
101 Article 2.1.6.1.8. Decree 2555/2010
102 Article 1066 C.Co.
103 Article 1077 C.Co.
104 Article 1080 C.Co.
105 Article 100.3 OSFS.
106 7s FCPR.
107 Art. 7e of FCPR.
108 Abusive clauses were also regulated in Chapter III Title III of the LCP.
109 Art. 7d FCPR and Art. 1. Circular Externa 015/2010
information according to legal requirements; (iv) the procedure for responding to claims, complaints or requests clearly and in a detailed and timely manner; and (v) the mechanisms that allow the supervised entity to collect statistics on complaints in order to identify ways to improve their service.\textsuperscript{110}

\textbf{Grievance Mechanisms:} The financial consumers in Colombia have three ways to complain and seek redress:\textsuperscript{111} the internal complaints consumer care department in the supervised entity (based on the FCCS);\textsuperscript{112} the Financial Consumer Ombudsman (FCO) that all supervised entities must have;\textsuperscript{113} and the complaint mechanisms before the FS. In respect of the FCO, FCOs must be registered in the Register of FCOs of the FS\textsuperscript{114} and separately, its activities are regulated.\textsuperscript{115} The FCO must protect consumers and act in an independent and autonomous way, and must provide services all over the country (it is noteworthy that the supervised entity appoints and pays the FCO).\textsuperscript{116} In particular, the FCO has to act diligently and resolve in a timely, effective, objective and free way, the complaints that consumers present to them regarding the possible breach of supervised entities’ obligations; and also, could act as a mediator/conciliator amongst financial consumers and the supervised entities. To do so, the FCO must be a lawyer and be certified as a conciliator.\textsuperscript{117} The conciliation agreement will be enforceable and becomes \textit{res judicata}. In addition, the FCO can represent consumers at hearings with supervised entities; make recommendations to supervised entities; and propose legal reforms.\textsuperscript{118} With respect to their decisions, the binding nature of FCO decisions depends on the rules of the company, but in all cases an FCO cannot decide on damages, penalties or compensation.\textsuperscript{119} With respect to the FS’s role, there are two complaint mechanisms, firstly that consumers can file their complaints with the Direction of the Financial Consumer Protection FS.\textsuperscript{120} Secondly, and more interestingly, the SCP granted to the FS jurisdictional competence to decide on disputes between financial consumers and supervised entities in respect of the performance of and compliance with contracts (in this case, the insurance contract).\textsuperscript{121} The decision of the FS will be final and binding (like a decision rendered by a judge\textsuperscript{122} in relation to this action, called, an action to “protect the consumer”).

\textsuperscript{110} Art. 8 of FCPR. Art. 5.2. Circular Externa SFC 015/2010.
\textsuperscript{111} These mechanisms are in addition to the traditional dispute resolution mechanisms available to the consumers (administrative or judicial). For more information on these, please refer to the assessment framework applicable to Colombia Annex X.
\textsuperscript{112} Articles 5e, 7k, 7l of FCPR, and Article 3.1.5. of LCP.
\textsuperscript{113} Article 13 of FCPR.
\textsuperscript{114} Paragraph article 18 FCPR, Circular Externa SFC 015/2010. The FCO must prove their knowledge of consumer protection and of the financial sector that appointed him or her. This hurdle will be met by having at least 5 years of professional experience, specialization in the sector, appropriate past conduct (references and corporate solvency) (Article 18 FCPR).
\textsuperscript{115} Arts. 2.34.2.1. to 2.34.2.1.9. of the Unique Decree and Decree 3993/2010.
\textsuperscript{116} Articles 16 and 17 FCPR.
\textsuperscript{117} The FCO must be a lawyer with training on alternative dispute resolution mechanisms according to Decree 3756/2007 (Article 2 Decree 3993/2010 and Law 640/2001). The expenses of the conciliation will be charged to the SE. The FCO have to report the information regarding the conciliation cases to the “Sistema de Información de la Conciliación.”
\textsuperscript{118} Art. 13 FCPR.
\textsuperscript{119} Art. 15 FCPR.
\textsuperscript{120} Art. 11.2.1.4.11. Decree 2555/2010
\textsuperscript{121} According to Articles 56.3., 57-58 of SCP.
\textsuperscript{122} For further details on this see the legal outline.
SEGURIDAD DE ACCIDENTES PERSONALES
POLIZA MATRIZ No: 4163924
CERTIFICADO INDIVIDUAL No: 1653407580003
FECHA DE EXPEDICION: 26/01/2013
NUMERO DE TIQUETE DE VENTA: 222821

CONDICIONES INDIVIDUALES DEL SEGURO DE ACCIDENTES PERSONALES

El presente seguro lo otorga
ASEGURADORA DE VIDA COSEGUROS S.A.
NIT. 860.027.404-1
por una vigencia de 30 días comunes
tomados a partir de las 00:00 horas del
da siguiente a la fecha de expedicion
del presente certificado. El tomador de
la presente poliza colectiva es GRANDES
SUPERFICIES DE COLOMBIA S.A. y el
asegurado es la persona

identificada con numero de cedula

quien es cliente de la entidad tomadora;
los beneficiarios serán los designados
por el asegurado quien para tal efecto
podrá comunicarse con la línea
018000510115 o 6065806 en Bogota
o los de ley; la prima del
presente seguro es la suma de $500
pesos. Este seguro anpara al asegurado
unicamente por MUERTE ACCIDENTAL
por la suma de $1.500.000
siempre que SU EDAD SE ENCUENTRE
COMPRENDIDA ENTRE LOS 14 Y 65 AÑOS, Y SE
ENCUENTRE EN BUEN ESTADO DE SALUD. ESTO
ES QUE NO PADEZCA O HAYA PADECIDO DE
PARAPLEJIA, CUADRIPLÉJIA, SORDERA, CEGERA
EPILEPSIA, APoplejia, Ataques de Cirrhus
TREMENS, SONAMBULISMO, SINCOPE, VERTIGOS,
ENFERMEDADES MENTALES O ENFERMEDADES
CORONARIAS. Las demas condiciones del
contrato de seguro son las del clausulado
que repara en las instalaciones del tomado
el cual podra ser consultado en la
pagina WEB.
www.carrefour.com.co

GRAN CONTRIBUYENTE: REGIMEN COMUN

VIGILADO SUPERINTENDENCIA
FINANCIERA DE COLOMBIA

Appendix 4. Sample of Personal Accident Policy offered by Carrefour Supermarkets
Appendix 5. Sample of Personal BANCOLDEX-Sponsored Individual Life Insurance Certificate

**MICROSEGURO DE VIDA**
**MINISTERIO DE AGRICULTURA**
**Oportunidades Rurales**

**BENEFICIOS**
- Para las producciones organizadas de la zona rural.
- Total de obras de salud de campo y sus beneficios.
- Incluye la cobertura de cualquier causa o incapacidad total y parcialmente.
- Incluye una renta mensual para gastos del hogar.
- Incluye clínica médica en caso de muerte.
- No se excluyen los beneficios de desempleo.
- No requiere haber vivido en el municipio.

**DEFINICIONES**
Las siguientes son las principales definiciones para tener en cuenta en la venta de microseguros:
- **Tamaño**: Tamaño que incluye la cobertura de todos los riesgos.
- **Beneficiario**: Personas que reciben el dinero en caso de que el asegurado muera.
- **Incapacidad total y permanente**: Se produce cuando el asegurado no puede trabajar.

**PERIODOS DE INDEMNIZACIÉN EN DÍAS**

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<th>PLAN 1</th>
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**Periodo de cobertura**: Tiempo mínimo requerido para que el asegurado se beneficie de las prestaciones del seguro.

**EJEMPLOS DE PRECIOS**

<table>
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<th>PLAN 1</th>
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**Incapacidad total y parcialmente**: Se produce cuando el asegurado no puede trabajar.

**PROCEDIMIENTO DE DEMANDA**

- **Utiliza una sola vez**: Certificado verificando que la solicitud es única.
- **Utiliza otro medio de comunicación**: Télefonos.
- **No tiene límites ni obligaciones**: Télefonos.
- **No exige haber vivido en el municipio**: Télefonos.
- **Incluye un análisis de riesgos y beneficios**: Télefonos.
- **Verifica que el cliente firmó y colocó la huella en las tres copias**: Télefonos.

**PREPARACIÓN DE PRECIOS**

- Un asegurado puede adquirir varias microseguros de vida.
- Sólo dos pólizas son abonadas al cliente.
- **Si se incluye el seguro en el contrato con el banco**
- **Si se incluye en el contrato**: Télefonos.

**RECLAMACIÓN**

1. **Diligencia civil de la reclamación**
2. **Histórico de la reclamación**
3. **Detalles de la reclamación**

**PROCEDIMIENTO PARA LA RECLAMACIÓN**

- El cliente debe comunicar la situación con la Entidad Seguros al 01 800-919538, o en Bogotá al 486-1080 o a la agencia más cercana.
- Presentar la documentación requerida.
- Recibir respuesta de la Entidad Seguros en los siguientes 15 días calendario en la agencia donde radicó los documentos.
The Microinsurance Network is a member-based network of organisations and individuals active in microinsurance. The mission of the Network is to promote the development and proliferation of good-value insurance products for low-income persons by providing a platform for information sharing and stakeholder coordination.

The Consumer Protection Task Force contributes to the effective implementation of consumer protection in microinsurance by all stakeholders through consolidation and dissemination of experience and provision of guidance on good practice.

This is a printed version of a draft previously distributed online. No changes have been made.

For more information on:
Microinsurance Network:
www.microinsurancenetwork.org
Any feedback or comments can be sent to info@microinsurancenetwork.org