

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

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Mutuals, cooperatives and community-based organisations (MCCOs) comprise a diverse range of entities that share a number of characteristics. They are member-owned, democratic, operate on the solidarity principle and created to serve a defined group and purpose and have a not-for-profit aim. They can range from village-based solidarity groups to large, licensed international organisations that are operating like commercial insurers.

Relevance and Functions

Mutuals have experienced a revival since the financial crisis of 2008-2009. Substantial growth has been recorded in emerging markets. Mutual insurers from advanced economies have also expanded into developing markets, either organically or through acquisitions.

MCCOs offer a wide variety of services. For many MCCOs, insurance is only secondary to their main function. They may self-insure or act as group policyholder or distribution channel. However, others hold a license and formally underwrite insurance. When they operate as group policyholders or distribution channels they may engage in motivating enrolment, financial education and premium collection. They may even support claims assessment. Since they do not aim to maximise profit, MCCOs often holistically support the resilience of their members and provide education, loss prevention and access to health facilities as a means of risk reduction.

MCCOs fill a gap for low-income and rural populations who otherwise might not have access to insurance. MCCOs have strong ties to local communities and are seen by their members as a safe and trusted place. They can provide relief when other options are unavailable. This is illustrated by the fast response of mutual benefit associations (MBAs) that provided support in the Philippines in the aftermath of typhoon Haiyan.

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

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

“Mutuals come in many shapes and forms.”

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

“Since the financial crisis, mutuals have been experiencing a revival.”

Jonathan Anchen, *Swiss Re, Switzerland*

“There is a huge population segment that is left out by commercial insurers.”

Kalyanasundaram Muthukumarasamy,
International Network for Alternative Financial Institutions (INAFI), India

“Any surplus or profit made should be utilized to improve the resilience of the people.”

Kalyanasundaram Muthukumarasamy, *INAFI, India*

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

Peter Wrede, *World Bank, USA*

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

Key Challenges

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

Experience with dedicated regulatory frameworks for MCCOs is limited.

In the Philippines, a dedicated regulation for one type of MCCO, the Microinsurance Mutual Benefit Association, has been key to their growth and to market development. In other countries, cooperative-type or mutual insurers are treated the same as commercial insurers. Yet others only allow the form of a share company. Jurisdictions which are considering to create a new tier of mutual insurers include Ghana, Sri Lanka and India.

In many jurisdictions, unlicensed MCCOs have been offering insurance to their members.

Informal provision is a concern from a consumer protection perspective as the scheme may collapse and leave the members unprotected. Without an insurance licence, organisational challenges can arise as governance may be weak, and the MCCOs will be unable to access reinsurance.

Due to their member orientation, MCCOs are more likely to limit premium increments and have higher claims ratios than commercial insurers. The average loss ratio of mutuals is reported to be slightly higher than the overall industry experience. While smaller mutuals have been doing relatively well in terms of average loss ratios, they face higher operating costs as they cannot reap the same economies of scale, which may threaten their long-term sustainability.

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

From a regulatory perspective, the corporate governance of MCCOs may warrant special attention. Members of many MCCOs typically come together for reasons other than the provision of insurance (e.g. in the case of a farmers' cooperative or a work-place based mutual). The members know all there is to know about their business but not about insurance. If board membership is restricted to members of the MCCO, the board may

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

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

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

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

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

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

not reflect the full range of expertise that is needed to underwrite or even distribute insurance. In addition, the founders are often dominant in an MCCO and lack a natural successor or are reluctant to leave their posts.

New regulatory requirements with respect to governance and solvency may pose a challenge for MCCOs. MCCOs can only mobilise capital from their members, so increased capital requirements can be particularly challenging. In addition, tighter corporate governance requirements are a concern for smaller MCCOs operating in remoter areas, as they may not be able to attract qualified personnel or may not be able to afford them.

Different authorities with different areas of expertise may need to be involved in the formalisation and supervision of MCCOs, such as the insurance supervisor, the Cooperative Authority and the Ministry of Agriculture. They may have misaligned interests or lack capacities to engage in insurance or may not be willing to accept the lead of the insurance supervisor.

Key Takeaways and Recommendations for Action

For Supervisors and Policymakers

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

For MCCOs

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

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

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

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

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

“Regulators need to keep their eyes and ears close to the ground.” Arup Chatterjee, *Asian Development Bank, Philippines*

“Mutuals are different. Not bad, not better, just different.” Michael Kofi Andoh, *National Insurance Commission, Ghana*