

Responsible Finance Forum

Responsible Finance Forum IV- Consumer protection in emerging insurance markets Summary

The fourth Responsible Finance Forum (RFF) was hosted by the German Federal Ministry for Economic Cooperation and Development (BMZ) and the Federal Financial Supervisory Authority (BaFin) on 24th and 25th June 2013 in Berlin. In the Forum, 85 high-ranking participants from 23 countries exchanged ideas, shared experiences and presented initiatives to advance the agenda for responsible finance in emerging insurance markets. The fourth RFF was organized in collaboration with the Access to Insurance Initiative (A2ii), the Consultative Group to Assist the Poor (CGAP), the International Association of Insurance Supervisors (IAIS), the International Finance Corporation (IFC), the International Labour Office (ILO), the Microinsurance Network, the Ministry of Foreign Affairs of the Netherlands and the Munich Re Foundation.

The timing of the debate on consumer protection in emerging insurance markets could not have been more pertinent. There are now more than 500 million microinsurance consumers and that number keeps growing. Innovations are taking place in the market to bring down costs, safeguard profits, achieve affordability and extend the reach of microinsurance. However, in order to sustain growth and achieve scale and sustainability, consumers must experience true value. To meet this challenge, the delivery of microinsurance needs to be responsible.

BACKGROUND

The Responsible Finance Forum is an inter-institutional platform for knowledge-exchange and consensus-building around the topic of responsible finance. The first Forum, hosted by the German Federal Ministry for Economic Cooperation and Development (BMZ) and held in Berlin in 2010, established an informal Community of Practice to improve cooperation and share expertise and knowledge on responsible finance. The second RFF, hosted by the Dutch Ministry of Foreign Affairs and held in The Hague in 2011, launched the Principles for Investors in Inclusive Finance (PIIF) with more than 40 global investors. The third RFF, hosted by the IFC in Washington D.C. in 2012, focused on the financial sector industry and practitioners' initial experiences in implementing responsible finance practices, and featured on-going updates from the SMART Campaign's Client Protection Principles and Principles for Investors in Inclusive Finance (PIIF).

Responsible finance emphasises the needs of consumers by promoting a more transparent, inclusive, consumer-centric and equitable delivery of financial products and services.

Responsible finance is based on three mutually reinforcing pillars:

- Consumer protection through regulation
- Industry self-regulation initiatives
- Financial capabilities of consumers

OBJECTIVES OF THE RESPONSIBLE FINANCE FORUM IV

In such context, the Forum aimed to:

- Highlight the importance of microinsurance in the debate on responsible finance.

In Cooperation with:

Conducted by:



- Recognise the importance of both effectively protecting consumers and continuing to promote the development of microinsurance markets.
- Better understand how to strengthen the business case for responsible microinsurance and promote responsible practices to be adopted by all microinsurance stakeholders.
- Identify the challenges of consumer protection in microinsurance, confront those challenges by sharing concrete initiatives based on the three pillars and highlight the tensions that arise when discussing such initiatives and the possible trade-offs to move the market forward.

KEY TAKEAWAYS

1. Consumer protection regulation

- Innovations are necessary to facilitate market development. The IAIS acknowledged that supervisory authorities are faced with a complex dilemma: how to effectively protect consumers without threaten the availability of needed services and innovations that promote the development of the microinsurance market. The IAIS and the A2ii are investing in building supervisory capacity in order to help supervisors to meet both of these challenges without overlooking the Insurance Core Principles (ICPs).
- Supervisors from emerging insurance markets have adopted different approaches to protect consumers in various areas, such as formalisation of insurance providers and distribution channels, product regulation and robust engagement on financial education.
- Regulators and supervisors need to consider the stage of development of the insurance market in order to choose the most appropriate consumer protection strategies.
- Strengthening the ability of distribution channels to actively protect consumers is often essential, and it is typically desirable to bring these channels under the insurance regulation. In any case (and particularly when distribution channels are not licensed) it is important to ensure that insurers are held accountable for wrongdoing by distribution channels.

2. Industry initiatives

- Consumers' trust and confidence in insurance products and providers is needed to achieve scale and sustainability of microinsurance. The industry plays a crucial role in developing this trust, both through specific consumer protection measures and more broadly by offering understandable, affordable and valuable insurance products as well as by providing unique and rapid claims administration.
- Industry players have different experiences and approaches, as well as interesting initiatives for self-regulation and tailoring grievance mechanisms.
- The relationship between industry self-regulation and consumer protection through regulation is intertwined and there are strong possible synergies between the two.

3. Financial capabilities

- It is important, though difficult, to measure impact of financial education efforts on consumers' understanding and ability to make good decisions around insurance.
- Financial education strategies are different from marketing strategies but it is necessary to find ways of linking education with platforms that make products available for potential consumers.
- Building financial capabilities is a long-term and complex process as it requires behaviours to change. Localized context is important. Financial education therefore requires efforts by all stakeholders.

In Cooperation with:

Conducted by:



MAIN CONCLUSIONS

- **The three pillars of responsible finance are as valid for insurance as they are for the other poverty oriented financial services.** Joint efforts of policymakers, supervisors, industry, development partners and other stakeholders are needed for further consumer protection in microinsurance. The sector as a whole needs to ensure real accountability and enforceability of existing regulations based on existing mandates and tackle cost issues which arise with the adoption of consumer protection measures.
- **The main challenge in consumer protection in microinsurance is to strike the right balance between effectively protecting the consumer and increasing access to microinsurance by promoting the development of the microinsurance market.** Efforts to stimulate the market scale of microinsurance and increase access to insurance must be balanced against consumer protection needs, but in the long term there are synergies between these two. Given that effective consumer protection promotes stability, value, and trust in microinsurance, scale and access goals will also ultimately benefit from consumer protection.
- **We must empower consumers in order to build confidence and trust, and ensure that they can play an active role in protecting themselves and using insurance effectively.** To do so, it is important to understand who the consumers are, what knowledge and capacity they already have, and what information and skills could help them to play this more active role.

NEXT STEPS

- **Collection and dissemination of good practices on consumer protection in microinsurance:** Good practice documentation creates awareness and improves information exchange. The Forum encouraged the Microinsurance Network to continue its work to document good practices and to further enhance learning on these topics. The Microinsurance Network brings together insurers, practitioners, development agencies and researchers and is well placed to orient stakeholders and advance learning..
- **Strengthening the strategic position of responsible microinsurance with other financial services:** The progress made on responsible finance in microfinance has to be adopted in microinsurance, whilst bearing in mind the particularities of insurance. We must analyse which principles and initiatives on responsible finance in microfinance are transposable to microinsurance and how we can adapt them to this market. The Community of Practice can play an important role in assisting these efforts.
- **Cooperation and harmonisation of efforts by development partners:** Stakeholders must develop cohesive consumer protection strategies by drawing on the different experiences of the numerous market players, after carefully analysing consumer needs. To achieve this we must enhance dialogue platforms and actively involve supervisory authorities, the industry, consumers and donors in the debate. The G20 GPFI Sub Group on Financial Consumer Protection and financial literacy, the Microinsurance Network, the Community of Practice and its events such as the Responsible Finance Forum, are good examples for these efforts and show that Financial Consumer Protection remains high on the political agenda.

In Cooperation with:

Conducted by:

