Regulatory Impact Assessment (RIA) on Microinsurance Nepal

-- Stakeholders Dialogue --
Findings, Conclusions and Strategic Recommendations

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Senior Advisors, GIZ RFPI Asia
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1. Why Regulatory Impact Assessment (RIA)
2. Framework of RIA implementation

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4. Facilitating/Hindering Factors of MI
5. Proposal from FGDs: the Ways Forward
6. The Opportunities for MI
7. Conclusions
8. Strategic Recommendations

Part 3: Resource, GIZ DeveloPPP
Part 4: Panel session
Why Regulatory Impact Assessment (RIA) is necessary?

Are the objectives of regulations met?
- Financial stability
- Consumer protection
- Private sector participation
- Inter-agency cooperation

Is there sustainable response of the market?
- Increasing # of market participants
- Sustainable and scalable business models
- Increasing client outreach and awareness
- Improving client value
### RIA Framework

<table>
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<tr>
<th>Tools</th>
<th>RIA Design: Objectives, Methods, Work Plan</th>
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<tbody>
<tr>
<td>Research Grid: Scope of IMPLEMENTATION Assessment</td>
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<tr>
<th>FGD Facilitation Guides</th>
<th>Interview Questionnaires</th>
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<tr>
<td>Interviews (group/individual)</td>
<td>Gathering of Statistics (RIA Indicators Matrix)</td>
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<td>Review of Reports/Literatures</td>
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<tr>
<th>Implementation</th>
<th>Analysis of Results and Writing of Report</th>
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<tr>
<td>Stakeholders’ Workshop – Communicate RIA Results</td>
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<tr>
<th>Next steps</th>
<th>Action Planning (during the stakeholders’ workshop)</th>
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<td>Follow up Implementation of Action Plans</td>
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STATUS of Microinsurance

What are Success factors
What are Hindering factors
What are the GAPS

OUTLOOK of Microinsurance

What needs to be done/changed
What can you contribute
What are the opportunities

Focused Group Discussion (FGD)

Policy and Regulation
Private Sector Participation
Formalization
Financial Literacy
Consumer Protection
Microinsurance Regulatory Initiatives
(some progress and market response)

   ✓ Revision is in progress, includes a proposal to create an MI dedicated companies

2) Microfinance Policy, 2063 – includes MI as one of the microfinance products
   ✓ Increasing # of licensed MFIs, 92 today (53 banks, 25 FINGOs, 14 coops – with a combined 2.3M members ao mid-June)
   ✓ MFIs can be an MI broker of their own clients

3) IB directives on crop, livestock and poultry insurance (Jan 2013)
   ✓ IB issued pre-approved products. New products on the pipeline
   ✓ All 17 non-life insurance companies are participating
   ✓ Increasing volume of business in 4 FY (2013-2017): sum assured, Rp625M to 8.6B; premium, Rp30M to 397M. Claims range 43%-57%. 
Microinsurance Regulatory Initiatives
(some progress and market response)

4) Ministry of Agriculture offered premium subsidy to crop and livestock insurance (June 2013)
   ✓ Increasing utilization of subsidy, increasing budget
   ✓ Simplified guidelines: VAT-free, tax-free, no limit to sum assured, options of cover based on input cost or on production/yield

5) Microinsurance Directives, 2071 (April 2014)
   ✓ Created an MI committee
   ✓ Provided **definition** of MI business
   ✓ Issued 7 pre-approved **products** - with limits to price points, sum assured and agent commission
   ✓ **Distribution** channel include MFIs, with simpler training requirement
   ✓ IB interagency cooperation - with the Agriculture and Livestock authorities for product development and training; with insurance industry for the promotion of agriculture insurance
Microinsurance Regulatory Initiatives
(some progress and market response)

6) MoF obliges all insurance companies a minimum 5% of portfolio for microinsurance, effective July 2016.

- Created a risk-pool for non-life MI products, all 17 companies participating
  - Have 7 pre-approved products (2 new)
  - 85 MFIs completed the training. Licensing of MFIs as agents is in progress. Selling to start soon
- 1 innovative index insurance product now on pilot implementation
- At least 3 life companies are making good progress in its respective MI-like business lines
- Emerging new market player: use of technology in insurance (insurtech)
## Facilitating/Hindering Factors of MI

<table>
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<tr>
<th>Strategic goals</th>
<th>Facilitating factors</th>
<th>Hindering factors</th>
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</table>
| Policy and regulation | ✓ Guidelines: to support low income people, fast claim, and low cost products  
✓ Subsidies in agriculture insurance  
✓ Constant IB supervision  
✓ **MI, a new market for the company** | ✓ High costs of compliance (admin, reporting, geographical limitation)  
✓ Lack of clarity of MI definition – 5% of portfolio, income level of target market)  
✓ **Lack of initiative to increase public awareness** |
| | ✓ IB has the required guidelines and is being updated | ✓ Input cost of agric. insurance not a suitable policy  
✓ **MFIs not allowed to do insurance business** |
| | | ✓ Lack of initiative to train poor people  
✓ Lack of extension services to rural areas |
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| **Willingness/seriousness of industry to participate** | ✓ Willingness/seriousness of industry to participate  
✓ Good coordination between government and industry | ✓ Lack of expertise (product design)  
✓ Not profitable and not sustainable  
✓ Difficult geographical areas (high cost of doing business) |
| **Private sector participation**    | ✓ Availability of credit life insurance in MFIs  
✓ Increasing participation of MFIs lead to more MI clients  
✓ Increasing subsidy from government (Agric)  
✓ Awareness program of the private sector  
✓ Training conducted by IB | ✓ Not allowing MFIs as insurer  
✓ No specialized MI company  
✓ High admin costs  
✓ Lengthy process of claims settlement |
## Facilitating/Hindering Factors of MI

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<td>Formalization</td>
<td>✓ Increasing need for insurance as indicated by informal insurance practices</td>
<td>✓ Risks of informal insurance practice to financial stability and consumer protection</td>
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<td>Financial Literacy</td>
<td>✓ Increasing public awareness (due to natcat)</td>
<td>✓ Lack of awareness; not aware of risks</td>
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<td>✓ <strong>Insurance companies jointly doing awareness campaign</strong></td>
<td>✓ Lack of promotion/ads</td>
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<tr>
<td>Consumer Protection</td>
<td>✓ Initiative of IB such the 10days to pay claim</td>
<td>✓ Lack of consumer awareness</td>
</tr>
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<td>✓ <strong>Some MFIs have simple MI documentation procedures</strong></td>
<td>✓ Viability issue for entities doing informal insurance</td>
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### Proposal from FGDs: the Ways Forward

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<th>Strategic goals</th>
<th>What needs to be done</th>
<th>What can you contribute</th>
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<tr>
<td>Policy and regulation</td>
<td>✓ IB to play a key role in providing subsidy for MI</td>
<td>✓ Compliance/implementation of policies and directives</td>
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<td>✓ Immediate response to the issues</td>
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<td>✓ Clear directives and guidelines</td>
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<td></td>
<td>✓ Insurance policy should be changed and generalized (role of MFIs)</td>
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<td></td>
<td>✓ Fast claims payout</td>
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<td></td>
<td>✓ Product innovation</td>
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<tr>
<td></td>
<td>✓ Licensing procedure should be simplified</td>
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| Private sector participation | ☑ Government policies that promote MI  
☑ Variety of/innovative products  
☑ Government subsidy, tax benefit  
☑ Technology development  
☑ Training and seminar  
☑ Easy regulations such as allow instalment payment of premium  
☑ Allow MFIs to do insurance (carry risk)  
☑ Provide subsidy to MI  
☑ More market research | ☑ Increase market penetration  
☑ Share market-driven suggestions/models  
☑ Effective participation – increase investment and involvement  
☑ Support to relevant stakeholders in introducing new/innovative products |
## Proposal from FGDs: the Ways Forward

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<tr>
<td>Formalization</td>
<td>✓ Regulator should emphasize that insurance is for the licensed companies only</td>
<td>✓ Increase number of branches (to cover remote areas)</td>
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<td></td>
<td>✓ Provide subsidies to encourage formalization</td>
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<tr>
<td>Financial Literacy</td>
<td>✓ Massive awareness campaign - use of mass media</td>
<td>✓ Increase financial literacy programs</td>
</tr>
<tr>
<td></td>
<td>✓ <strong>Targeted financial literacy for clients</strong></td>
<td>✓ Conduct orientation and training on MI in collaboration with insurance companies</td>
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<tr>
<td>Consumer Protection</td>
<td>✓ Promote and amend Consumer Protection Act</td>
<td>✓ Improve customer oriented services</td>
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<tr>
<td></td>
<td>✓ Simple procedures and documentation</td>
<td>✓ Engage local focal persons and build local capacity</td>
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The Opportunities for MI

1) There are 10 new life insurance companies
2) Multiplication of business (cross selling)
3) Government focus on MI
4) Private sector friendly policies
5) MFIs can earn additional income from MI (as agent)
6) Large untapped market
7) Digitization of insurance (harnessing use of insurtech)
8) Scaling up of weather-based index insurance
9) Mitigation of vulnerability and risks of low income households (linking MI to NGO programs)
Conclusions

1. The MI policy direction in Nepal is mandatory to the insurance industry and is being guided by basic directives with pre-defined limits to premium, sum assured and commission rate. It allows MFIs to participate as agents.

2. The lack of clarity on the definition of target clients and the pre-defined limits pose challenges to compliance by the industry.

3. While the directives allow new product development, the pre-defined limits in the standard products limit healthy competition in the market hence lack innovations.

4. Agriculture insurance, which provides premium subsidy to all farmers (subsistence and commercial), could be considered a ‘food security’ program rather than “social security’. This program, to some extent, also serves the purpose of MI.

5. Some insurers are making good progress in MFIs partnership as aggregators. Cross-selling opportunity provides a push.

6. Innovation in products and in scalable business models, including use of technology, are yet to be pursued in order to address the issues of high cost of administration and low client outreach.

7. Premium subsidy to agriculture insurance stimulates increasing client outreach and public awareness. Whether the government finances could sustain the program and support expansion remains a challenge.

8. MFIs participate only as an aggregator and agent. The current regulation prohibits MFIs to act as underwriter and/or to set up a company that is limited to MI business only.
Conclusions

9. The Social Protection Fund schemes that many MFIs are practicing is an indication that there is demand for insurance and there is insufficient supply of appropriate products. Informal insurance bring risks to financial stability of the MFI and is a potential consumer protection issue.

10. While there are ad hoc initiatives on financial literacy, there is lack of systematic and institutionalized finlit measures that engage inter-agency cooperation.

11. There is supervision of the IB in the implementation of the MI directives. Making the products and policy contract easy to understand and having simple procedures in client enrolment and claims administration are effective measures to consumer protection.
Strategic Recommendations

Responsive Policy and Regulation
1) The MoF and/or IB to set up venues for public-private dialogue where regulators, insurers, intermediaries and support organizations can regularly discuss about proportionate regulations, MI market issues and solutions.

Innovations in business model
2) Provide an enabling environment which encourages market-based participation of insurance stakeholders, products diversity, innovations in business model, and providing options to formalization of informal insurance practices.

Increase public Awareness
3) Institutionalization of financial literacy measures both by the government and private sectors where finlit activities are integrated in the regular programs of government and in regular business activities.

Inter-agency Cooperation
4) Develop formal agreements for inter-agency cooperation between and among government authorities, industry players, intermediaries and other stakeholders to pool its respective resources in producing public goods and investing in common interest such as in financial inclusion agenda, capacity building, market research, data sharing, and complementation of MI and social protection programs.

Operational Recommendations… your thoughts?
Is an instrument of GIZ that is funded by BMZ. It aims to foster cooperation between the private sector and actors in the development field for the mutual benefit of both parties.

The company must demonstrate a clear commercial interest in the project.

Applications are open to all German and EU-registered companies.

Minimum criteria for participation includes:
- annual turnover of at least EUR 1 million, 10 employees, and 3 years of business operations.

The company is responsible for covering at least half of the overall costs, while BMZ contributes up to a maximum of EUR 200,000.

The company must submit a project proposal through an ideas competition that is held every 3 months (March, June, Sept, Dec).

Partnership with the private sector may last up to 3 years.
Panel Session to

1. Debate on the RIA conclusions
2. Get your thoughts on the strategic recommendations
3. Solicit recommendations for operational implementation

Panelists

1. Beema Samiti
2. Ministry of Finance
3. Ministry of Agriculture
4. Rastra Bank
5. Nepal Insurance Associations (life, non-life)
6. Microfinance Bankers Association
7. Sakchym Access to Finance
8. Coops group representative
9. NGOs group representative
GIZ RFPI Asia (Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia) is a regional program that supports Asian insurance supervisory authorities to enhance the enabling conditions for pro-poor insurance. Regional and global exchanges between insurance supervisors are being promoted through training and dialogue events. RFPI is funded by the German Federal Ministry for Economic Cooperation and Development (BMZ).

www.inclusiveinsuranceasia.com

Mutual Exchange Forum on Inclusive Insurance (MEFIN) is a Network of insurance regulatory authorities in Asia working for a peer-to-peer exchange of knowledge and experiences with the insurance industry. The Network implement programs that provide mutual benefit to the members in advancing inclusive insurance solutions especially targeted for the low income and the informal sectors.

www.mefin.org