Tanzania Insurance Regulatory Authority

REGULATORY IMPACT ON CUSTOMERS

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0. Agenda

1. Insurance Regulation Vs Supervision;
2. Some Objectives of Regulation of the Insurance Sector;
3. Some Approaches to Insurance Regulation;
4. Impact of Insurance Regulation to Customers;
5. Some Suggestions on Improving Impact of Regulation on Customers;
6. Conclusions.

1: Insurance Regulation Vs Supervision

1.1 Introduction

- According to the IAIS, a sound regulatory and supervisory system is necessary for:
  - o maintaining a fair, safe and stable insurance sector for the benefit and protection of the interests of policyholders, beneficiaries and claimants; and
  - o contributing to the stability of the financial system.
- For purposes of this presentation, policyholders, beneficiaries and claimants will collectively be referred to as “insurance customers”;
- Also for clarity, wherever “regulation” is used in this presentation it will refer to both “regulation” and “supervision”.

1: Insurance Regulation Vs Supervision (Cont…2)

1.2. Why Should the Insurance Industry be Regulated?

- The distinguishing feature of insurance is the upfront payment of funds in exchange for services or payments to be made in the future.
- This is considerably different from traditional markets where goods and services are provided when or before payment is made.
- It is this feature that necessitates regulation of the insurance industry all over the world.

1: Insurance Regulation Vs Supervision (Cont…3)

1.3. Who Benefits from Insurance Regulation

- It is often argued that the primary beneficiary of insurance supervision is the insurance consumer in that insurance regulations and insurance supervision are put in place to ensure that each insurer has sufficient funds to pay legitimate claims when they come due.
- However, the insurance industry also derives significant benefit from regulation and supervision.
- If past experience indicates that insurers are unable or unwilling to make legitimate payments when they become due, confidence in the insurance industry will be eroded and the industry will collapse.

1: Insurance Regulation Vs Supervision (Cont…3)

- The primary objectives of insurance supervision are therefore related to both consumer protection and to the maintenance of confidence in the insurance industry.

1: Insurance Regulation Vs Supervision (Cont…4)

1.4. Solvency Supervision

- Regulatory rules are established to ensure that insurance companies remain solvent and have the ability to pay claims when they become due. This is known as **solvency supervision**.
- It is unrealistic to expect solvency supervision to prevent all insurance companies' insolvencies; a more realistic goal for solvency supervision is to –
  - o minimize the number of failures;
  - o minimize the negative impacts on the consumer when failures do occur; and
  - o minimize any loss of confidence that results from the failure of one or more companies.

1: Insurance Regulation Vs Supervision (Cont…5)

1.5. Market Conduct Supervision

- A second type of insurance supervision is known as **market conduct supervision** and deals with the relationship between the insurance provider including insurers, brokers and agents and the insurance consumer.
- Confidence in the insurance industry will also be eroded if insurance companies, although having the ability to meet obligations –
  - o refuse to meet those obligations; or
  - o meet their obligations in a less than satisfactory manner in the opinion of the consumer.

1: Insurance Regulation Vs Supervision (Cont…6)

1.5. Market Conduct Supervision (Cont…2)

- The role of market conduct supervision is to ensure that this does not occur with the focus being on:
  - Full disclosure of relevant information to the consumer;
  - The provision of fair products to the consumer;
  - The provision of products that meet the needs of the consumer; and
  - The prompt payment of legitimate claims incurred by the consumer.

1: Insurance Regulation Vs Supervision (Cont…7)

1.6. Insurance Regulation CF Insurance Supervision

- The meaning of **insurance supervision** can be more understandable as the **monitoring of insurance companies' and intermediaries behaviour**, including their **compliance with insurance rules and regulations. Normally, implemented through on-site inspections and off-site assessments**.
- Broadly defined, **insurance regulation** is an **imposition of rules by the regulatory agency**, backed by the use of penalties that are intended specifically to modify undesirable behaviour of individuals and firms in the insurance sector;
- Accompanied by issuance of guidelines, directives etc.

2: Some Objectives of Regulation of the Insurance Sector

2.1. Safeguarding Insurers' Ability to Pay Claims (Solvency Regulation):

- Regulating insurers is **important** in safeguarding future payment of losses.
- Solvency **regulation** may help but, in spite of the best efforts of **insurance** executives and regulators, some insurers fail.
- Monitoring and preserving the financial solvency of **insurance** companies;
- **Regulating** other aspects of the **insurance** industry.

2: Some Objectives of Regulation of the Insurance Sector (Cont..2)

2.2. Controlling Conduct and Customer Fair Treatment (Market Conduct Supervision):

- **Regulating** and standardizing **insurance** policies and products;
- Controlling market conduct and preventing unfair trade practices;
- Principal-agent conflicts that could lead some insurers to engage in abusive market practices that harm consumers;
- Insurance consumers, particularly individuals and households, face significant challenges in judging the financial risk of insurers and properly understanding the terms of insurance contracts.

2: Some Objectives of Regulation of the Insurance Sector (Cont..3)

2.3. Minimizing Market Failures and Managing Systemic Risks (thus contributing to financial stability):

- Systemic risk could be defined as the risk that a market or financial system could experience severe instability, potentially catastrophic, due to certain peculier events or conditions in the financial market.
- It may arise from the links between firms in a system or market in which the failure of one or more firms can have cascading effects that could potentially bring down an entire system or market.
- Kind of market failure that can arise from excessive risk-taking by financial institutions whose failure can lead to the failure of other firms in a market or system.

3: Some Approaches to Insurance Regulation

3.1. Solvency Regulation:

- Overseeing the financial condition of insurance companies.
- One can contrast two basic approaches to insurance solvency regulation: (1) a “prescriptive” or “rules-based” system; and (2) a “principles-based” system.
- **Prescriptive approach** - heavily influenced by an accounting perspective. This is reflected in a voluminous set of laws, regulations, rules and other measures that govern insurers’ financial structure and actions.
- Some Regulators have tended to focus on insurers’ compliance with these prescriptions rather than the prudence of their management and actions and their overall financial risk.

3: Some Approaches to Insurance Regulation (Cont…2)

3.1. Solvency Regulation (cont..):

- **Principles-based approach:** Emphasis is placed on insurers maintaining an adequate "solvency margin" and the competence and judgement of an insurer's management and actions with an insurer's financial risk being the ultimate point of focus for supervisors.
- Regulators pay close attention to how well insurers are managed and exercise significant discretion in the actions or interventions they may employ to correct practices or problems as they deem necessary.
- This approach should allow insurers greater freedom in managing their affairs as long as they use that freedom judiciously, do not engage in excessively hazardous ventures or transactions and ultimately keep their financial risk within reasonable bounds.

3: Some Approaches to Insurance Regulation (Cont…2)

3.2. Market Conduct Regulation:

- Relates to regulating certain insurer market practices, such as product design, marketing and claims adjustment.
- Constraints on consumer choice and unequal bargaining power between insurers and consumers, combined with inadequate consumer information, can make some consumers vulnerable to abusive marketing and claims practices of insurers and their agents.
- There have been instances in which insurance products have been misrepresented by insurers or their agents.
- Some insurance players are not keen on maintaining a strong reputation for fair dealings with consumers.
- Regulators need to be vigilant for “bad actors” who seek gains from abusive or fraudulent transactions.

4: Impact of Insurance Regulation to Customers (Some Examples)

Customer Expectations (Some Examples)	Role of Solvency Regulation Function	Role of Market Conduct Regulation Function
Pre-Contractual Stage: • Accurate and sufficient information on insurance products to facilitate informed decisions; • Reasonable confidence in the insurance market's ability to deliver	• Establish solvency requirements on insurers; • Monitor implementation of solvency requirements on insurers; • Ensure only solvent insurers are allowed to operate in the market.	• Establish requirements for information disclosure to current and potential customers; • Monitor implementation of disclosure requirements by insurers and intermediaries; • Apply sanctions on non-compliant players.

4: Impact of Insurance Regulation to Customers (Some Examples) (Cont..2)

Customer Expectations (Some Examples)	Role of Solvency Regulation Function	Role of Market Conduct Regulation Function
Contractual Stage (Pre-Loss): • Accurate disclosure of information on insurance policy terms & conditions; • Correct representation of insurance products; • Fair pricing of insurance products; • Efficient infrastructure for access of insurance services; • Timely delivery of cover note, policy documents, etc.	• Monitor implementation of solvency requirements on insurers; • Ensure only solvent insurers are allowed to operate in the market.	• Establish requirements for: o disclosure of information on insurance products; o correct representation of insurance products; o pricing of insurance products; o access of insurance services ; • Monitor implementation of relevant requirements; • Apply sanctions on non-compliant players.

4: Impact of Insurance Regulation to Customers (Some Examples) (Cont..3)

Customer Expectations (Some Examples)	Role of Solvency Regulation Function	Role of Market Conduct Regulation Function
Contractual Stage (Post-Loss): • Correct and accurate disclosure of information on claims handling processes; • Fair compensation for covered loss; • Efficient infrastructure for claims handling; • Timely claim handling.	• Monitor implementation of solvency requirements on insurers; • Ensure only solvent insurers are allowed to operate in the market.	• Establish requirements for: o disclosure of information on claims handling processes; o fair compensation for covered losses; o claims administration processes ; • Monitor implementation of relevant requirements by insurers and intermediaries; • Apply sanctions on non-compliant players.

5: Some Suggestions on Improving Regulatory Impact on Customers

5.1 Need for Optimal regulatory framework designed to:

- minimise the cost of insurer insolvencies;
- promote the pricing of insurance at marginal cost;
- promote reasonable trade practices;
- provide appropriate incentives for insurers to police their own practices and those of their agents; and
- provide the optimal amount of insurance.

5: Some Suggestions on Improving Regulatory Impact on Customers (Cont..2)

5.2 Implementation of effective market conduct supervision framework:

- contributes towards strengthening customer confidence in the insurance market:
- market surveillance activities are separate and distinct from prudential requirement reviews as the output of these activities can serve as problem indicators.
- market conduct regulatory activities ensure that problem areas are identified proactively before they escalate to other areas which eventually reflect on the financial performance of an insurer.

5: Some Suggestions on Improving Regulatory Impact on Customers (Cont..3)

5.3 An integrated approach to regulation and supervision between the prudential requirements and the market conduct requirements**:**

- Experience has shown, for instance, a direct correlation between an increased number of consumer complaints on delayed settlement or denial of claims to a deteriorating financial conditions of an insurer:
- A market conduct inspection may therefore identify improper claims practices, which could indicate cash flow problems.
- Effectively use these signals to identify and address an ultimate potential failure of an insurer or intermediary.

5: Some Suggestions on Improving Regulatory Impact on Customers (Cont..4)

5.4 Need to Enhance Insurance Consumer Protection :

- Presence of financially sound insurance entities is key to insurance consumer protection.
- Consumers are more vulnerable to abuses by financially weak insurance companies which must always find excuses for not paying, under-paying or delaying payment of genuine insurance claims.

6: Conclusions

- A sound insurance regulatory system is vital for maintaining a fair, safe and stable insurance sector for the benefit and protection of the interests of insurance customers;
- Upfront payment of premiums in exchange for services or payments to be made in the future necessitates regulation of the insurance industry;
- Both insurance consumers and the insurance industry derive significant benefit from regulation of the industry;

6: Conclusions (cont..2)

- An integrated approach to regulation and supervision between the prudential and the market conduct requirements is key in achieving stability of the industry and protection of customers;
- There is need to enhance insurance consumer protection by ensuring –
  - o that only financially sound insurance entities are allowed to operate in the market; and
  - o that consumers are continuously protected from abuses by unscrupulous players.

Thank you for your attention!

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