



## **MICROINSURANCE FRAME WORK**

### **POLICY PAPER**

*“ CREATING A REGULATORY FRAMEWORK  
FOR INCLUSIVE INSURANCE IN JAMAICA ”*

**THE FINANCIAL SERVICES COMMISSION**  
**MICROINSURANCE FRAMEWORK – POLICY PAPER**

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**THE FINANCIAL SERVICES COMMISSION**  
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Jamaica has developed a National Financial Inclusion Strategy which involves stakeholders including supervisors of financial institutions to develop a road-map to guide the process where all persons can have access to financial services. In particular emphasis is placed on the disadvantaged and low-income groups of the population<sup>1</sup>.

Microinsurance is one medium that is used to achieve the objectives of financial inclusion. The International Association of Insurance Supervisors (IAIS) defines microinsurance as “insurance that is accessed by low-income population, provided by a variety of different entities, but run in accordance with generally accepted insurance practices (which should include the Insurance Core Principles).”

The IAIS further explains that “the risk insured under a microinsurance policy is managed based on insurance principles and funded by premiums.” The IAIS also stipulates that the microinsurance activity should fall “within the purview of the relevant domestic insurance regulatory/supervisor or any other competent body under the national laws of any jurisdiction.” Microinsurance however, does not include insurance in respect of governmental social welfare and emergency assistance provided by government.

An inclusive insurance strategy is one such component of the overall national financial inclusion strategy of which microinsurance plays an important role. In recognition of this the Financial Services Commission (the FSC) has become a key driver in the process of creating awareness for microinsurance business in Jamaica, within the insurance industry and the public arena.

The development of a legal and regulatory framework, using a consultative approach, between all stakeholders, including cooperatives, insurance entities, utility companies, telecommunication service providers and the public, create an environment for the development of microinsurance business in Jamaica. Hence, in July 2015 the Inclusive Insurance Committee (IIC) was established by the FSC to form a partnership with the insurance industry, cooperative supervisors and other relevant stakeholders.

The purpose of the IIC is to:

- a. Oversee the development of inclusive insurance in Jamaica, specifically looking at micro-insurance.
- b. Develop the micro-insurance framework in Jamaica

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<sup>1</sup> <https://a2ii.org/sites/default/files/reports/jamaica-country-diagnostic.pdf>

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Despite the benefits to be derived to the policyholders by the introduction of microinsurance, the FSC is cognizant that microinsurance must be delivered in an environment which allows for the application of sound insurance principles, as guided by the International Association of Insurance Supervisors (IAIS) core principles, as well as, satisfy the needs of all stakeholders.

The regulatory framework seeks to ensure that such an environment exists without stifling the creativity and entrepreneurship that will allow for a viable and vibrant market place for the development and growth of microinsurance business in Jamaica.

In addition, the paper highlights some of the proposed requirements and guidelines that will be developed for the establishment of microinsurance in Jamaica.

## **2.0 Purpose of the Paper**

This paper provides the rationale to amend the insurance legislation to allow the insurance industry to conduct microinsurance business in Jamaica. The paper also addresses essential factors that must be considered by the FSC in order to achieve its objectives of prudential supervision of the insurance industry.

This paper indicates the path for the regulation and supervision of microinsurance business in Jamaica. It provides details of the objectives and key elements which need to be in place to ensure that these objectives are achieved.

In doing so, the paper makes recommendations that will lay the foundation for the drafting of a legal and regulatory framework aimed at enabling the development of the microinsurance market in Jamaica, in a manner which encourages and protects all stakeholders.

## **3.0 Rationale for Microinsurance Business in Jamaica**

There is a growing need for persons from the lower income population to gain access insurance protection for the sustainability of their families<sup>2</sup>. Additionally, major sectors, such as the

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<sup>2</sup> <https://a2ii.org/sites/default/files/reports/jamaica-country-diagnostic.pdf>

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agricultural sector, are faced by natural disasters and require some measure or mechanism to ensure continued development following the negative effects of these disasters. Small farmers, as well as most persons in the informal sector, tend to rely heavily on assistance from the government in the event of a disaster.

The introduction of microinsurance would allow for affordable insurance to be available within Jamaica, through the use of various approved non-traditional insurance entities. These entities would be able to distribute microinsurance products in Jamaica. In addition, Insurance companies may form partnerships with other financial institutions, for example micro financing institutions and credit unions, or other financial cooperatives, to ensure that low income individuals have access to microinsurance products.

In broad terms, the main rationale for the introduction of microinsurance in Jamaica is to seek to increase the percentage of the population who uses insurance as a risk mitigation tool, instead of placing reliance on government resources, family members, sale of assets and depletion of their savings in the event of a disaster.

The consequences to an economy in which insurance is not utilized by a broad spectrum of the population can be significant, as without adequate protection across economical profile it can result in the destruction of wealth, which leads to more reliance on the Government; reduced productivity and economic growth; loss of investment in human resources through education; shortened productive life and overburdened public health care facilities.

Microinsurance can help to reduce the burden to the government when disasters occur, as insurance will help to cover losses sustained by low income individuals, thus enhancing psychological security and risk mitigation. This in turn will provide financial stability within families, and improve the overall growth and development of the country.

#### **4.0 Development of Microinsurance**

Since 2012 the FSC has been working with an international partner the International American Development Bank (IDB), through Access to Insurance Initiative (A2ii), to develop microinsurance business framework in Jamaica. The FSC requested technical assistance, from its international partners in the development of a legal and regulatory microinsurance framework to facilitate the introduction of microinsurance business in Jamaica.

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Currently, there are no approved microinsurance products (MP) in Jamaica, as the current legislative framework does not address microinsurance business. , However, there are insurance products offered in Jamaica that may be considered as microinsurance products based on the characteristics of those products, for example, policy design, premium cost, distribution channels and the target market for the products

Since 2013, the FSC has been working with the general insurance industry to facilitate the introduction of microinsurance products to the market.

It is the FSC's intention to continue to work with insurers in the industry to use third party institutions, such as cooperatives to distribute policies on a group basis, thus facilitating the ease of access to insurance by the target market.

## **5.0 FSC's Objectives and Priorities**

The FSC has established the following objectives and priorities as follows:

- a. Creation of a legal and regulatory framework for microinsurance which will include:
  - i. Development of a framework for consumer protection against the possible abuse by microinsurance providers.
  - ii. Development of regulatory standards will facilitate nontraditional intermediaries to the market
  - iii. Development of a framework to supervise the microinsurance sector.
- b. Staff training and capacity building in respect of microinsurance for the FSC, and other training for the insurance industry.
- c. Development of supervision manuals to guide the FSC in the oversight of the microinsurance sector

### **5.1 Short-term goals**

- a. To develop the internal capacity at the FSC to supervise and evaluate entities marketing microinsurance products and new entrants who wish to conduct microinsurance business.
- b. Continued guidance on the development of the legal and regulatory framework to supervise microinsurance providers effectively.
- c. Creation of Microinsurance Guidelines to be used by the industry.
- d. Continued public awareness of microinsurance

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**5.2 Long-term goals:**

- a. Amendments to the insurance legislation and the development of a suitable regulatory and supervisory framework.
- b. Enhance financial literacy among consumers.
- c. Supervision of the microinsurance sector

**6.0 Current Insurance Legislation**

Currently the insurance regulatory framework does not address regulating or monitoring of microinsurance business. However, there are insurance entities and other entities, e.g. cooperatives, micro financing businesses, that have an interest in providing microinsurance products to the market. Changes are therefore required to the current insurance legislation to facilitate the introduction of microinsurance business in Jamaica.

**7.0 Creating Legal and Regulatory Framework for Microinsurance**

The IAIS indicated that there is no uniform view on what should be regarded as the appropriate policy objectives for the regulation of the microinsurance sector. The IAIS also indicates that the following points are, generally accepted as the most relevant objectives for the successful development of Microinsurance regulation:

- i. Safeguarding the solvency of the companies involved in the provision of [micro] insurance policies (which can also be described as ensuring the stability of the sector);
- ii. Protecting consumers or policyholders;
- iii. Increasing the competitiveness of the market and its efficiency ;
- iv. Developing the market, including formalising financial services to low-income clients; and
- v. Supporting other strategic (non-insurance) objectives such as compliance with international standards or law enforcement (e.g. Anti-Money laundering/ Counter Financing.

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## **8.0 RECOMMENDATIONS**

### **8.1 Definition of Microinsurance**

It is recommended that section 2(1) of the Insurance Act (the Act) be amended to include a definition of microinsurance business as follows:

“Microinsurance business” means the carrying on of insurance business to provide affordable risk protection that is accessible to and specially designed for low income earners<sup>3</sup> and the underserved<sup>4</sup> through the offering of a variety of insurance products approved by the FSC and distributed by persons approved by the FSC.

### **8.2 Microinsurance as a Class of Business**

Section 8 of the Act, prohibits an insurance company to be registered to carry on both long term and general insurance business, unless such general insurance business consists exclusively of accident insurance business. To facilitate microinsurance business the following should be considered:

→ The insurance legislation could be amended to allow the registration of composite insurers<sup>5</sup>, only for the purposes of microinsurance business. This should be considered, as microinsurance products usually include both life and general insurance business and a microinsurance provider, may wish to create both life and general insurance products, either separately or as a combined product.

### **8.3 Insurable Interest and Group Policies**

The FSC has proposed an amendment to the Insurance Act regarding group insurance policies. The FSC recommends the inclusion of a specific provision that will exempt group policies from

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<sup>3</sup> As prescribed by the Planning Institute of Jamaica

<sup>4</sup> Which may include persons who are not considered low income

<sup>5</sup> An insurance company registered to carry-on both long-term and general insurance business.



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the current insurable interest requirements. This will allow for a member of the group contract to make a claim directly against the insurer, although he is not the master contract holder.

## **8.4 Microinsurance Regulations**

The Microinsurance Regulations will accompany the Microinsurance Framework. The Microinsurance Regulations will include the following:

- a) Development and Design of Microinsurance Policies
- b) Approval Process
- c) Restrictions
- d) Conduct of Business

## **9.0 Microinsurance Supervision**

### **9.1 Registration Requirements**

The FSC is empowered by the Insurance Act to stipulate the registration requirements for persons conducting insurance business, to ensure that persons desirous of doing so have the requisite knowledge and skills to conduct insurance business

In order to allow for the ease of access and reduce the cost of distribution to the target market, consideration will have to be given to the registration of persons and entities that are easily accessible to the target market.

The licensing criteria for individuals and companies that will operate **only** in the microinsurance business<sup>6</sup> will differ significantly, from those prescribed for traditional distribution channels of life and property and casualty risks.

Licensing of all providers and distributors must be based on a minimum competency and knowledge of the unique aspects of microinsurance.

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<sup>6</sup> In some jurisdictions, funeral parlours offer microinsurance products.

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## **9.2 Investment Requirements**

Insurers engaging in microinsurance business will be required to have in place an effective programme for managing its asset-liability position; ensuring that its assets and investment activities are appropriate to its liability and risk profiles and solvency position. The FSC will issue guidelines for investments of the funds of the microinsurance business.

## **9.3 Actuarial Assessment and Review of the Microinsurance Product**

Actuarial assessment of the pricing of the microinsurance products will be essential in determining the proper allocation of expenses, the earning of investment income and profits and adequate reserves.

Microinsurance products developed by insurers should satisfy standards stipulated by the FSC, to ensure consumer protection. Insurers should have in place certain key product design which will distinguish microinsurance products from the traditional products.

Key product design may include setting appropriate insured amounts, avoiding complex exclusions and simple policy language.

## **9.4 Microinsurance Guidelines**

The FSC has prepared the framework for the Microinsurance Guidelines which will provide additional details regarding the supervision of microinsurance in Jamaica. These Guidelines will have the force of law.

## **10.0 Consumer Considerations**

### **10.1 Consumer Education**

One of the greatest challenges for microinsurance is the target market's lack of insurance information and understanding. This leads to weak demand for such services as consumers may

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exhibit wariness or may be apprehensive about insurance. It also opens the door to deliberate mis-selling by agents striving to reach quotas or higher commission levels. Conduct of this nature will negatively affect the reputation of insurance.

The FSC will facilitate on-going consumer educational programmes to explain how microinsurance functions and the benefits to potential policyholders. Additionally, potential policyholders should be sensitised to engage in transactions only with persons registered to conduct microinsurance business.

## **10.2 Consumer Protection**

Regulation of microinsurance business aims foremost at consumer protection. The low-income market is particularly vulnerable to abuse. Microinsurance agents or sales persons may provide misinformation or mislead low-income clients, while displaying aggressive sales practices. This could be a deliberate action on their part or it could be that they do not understand the details of the products or the market segment to which they are selling.

It will be critical that training is available for those who will operate in this market segment to ensure a good understanding of and ability to transfer details on microinsurance products and services. The FSC will ensure that there are effective consumer recourse and complaints processes to facilitate a speedy resolution of disputes between insurers and/or microinsurance intermediaries and their customers.

Insurers are required to establish efficient and effective procedures and processes for the lodging of complaints.

## **11.0 Conclusion**

The delivery of insurance to the low income, underserved or unserved market has not been a priority of the traditional insurance sector, but increasingly, the importance of inclusive insurance in alleviating poverty in Jamaica.

The starting point for financial inclusion and in particular inclusive insurance must be the creation of a legal and regulatory framework that supports the activities, development and

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promotion of microinsurance, which in turn will lead to the protection and financial stability of the policyholder, the industry and the country.

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