

Micro Insurance: Regulatory, Legal and Supervisory Issues

By

S S Ratnayake

Additional Director

SNBFI Dept. - Central Bank

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Coverage of the Session

- Proposed special regulatory and supervisory framework for MFIs
- Regulation of insurance business in Sri Lanka (briefly)
- Micro Insurance: regulatory and supervisory issues

Draft

Micro Finance Institutions Act (MFI Act)

Structure and Salient Features

Purpose of MFI Act

To provide for the licensing, regulation, and supervision of institutions that carry on **micro finance business** and for the matters connected therewith or incidental thereto.

What is Micro Finance Business ? (MFB)

Micro finance business means acceptance of deposits or receiving and/or obtaining external funds* and providing financial accommodation in any form and other financial services, mainly to low income persons and to small and micro enterprises;

* “external funds” means grants and donations in cash or material form, borrowings, security deposits and any other sources of funds that may be specified by the Monetary Board.

PART I-Licensing of Micro Finance Institutions.

- o No person other than a person issued with a licence under this Part of the Act, shall commence or carry on micro finance business, on or after the appointed date.

(Exempted institutions are given in the next slide)

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- Exempted Institutions from Licensing.
 - A licensed commercial bank or a licensed specialized bank.
 - A finance company registered under the Finance Companies Act.
 - A building society registered under the National Housing Act.

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- A co-operative society registered under the Co-operative Societies Law.
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Provided, such co-operative society shall comply with the provisions of this Act and orders, directions and requirements that the Board may issue or impose from time to time under the provisions of this Act.

(Co-operative Commissioner will be required to furnish a list of registered Co-op Societies which carry on MFB)

Contd.....

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- Any registered non-profit organization which accepts deposits only from its registered members with the prior written approval from the Monetary Board.
- Any person who carries on finance business but total assets are below an amount determined by the Monetary Board.



MFI Act provides for issuing licences to carry out micro finance business at 4 levels, in terms of the operating area–

1. National level;
2. Provincial level;
3. Administrative District level; or
4. Divisional Secretary's Division level

Requirements for Applying for Licence

Category of Institutions	National Level	Provincial Level	District Level	DS Division
A public company limited by shares.	Core capital > Rs.50 mn	Core capital > Rs.10 mn	Core capital > Rs.5 mn	Core capital > Rs.1 mn
A company, limited by guarantee.	Net Assets > Rs.50 mn	Net Assets > Rs.10 mn	Net Assets > Rs.5 mn	Net Assets > Rs.1 mn
An NGO registered under the Companies Act, and Voluntary Social Service Organizations Act.	Net Assets > Rs.50 mn	Net Assets > Rs.10 mn	Net Assets > Rs.5 mn	Net Assets > Rs.1 mn
A body corporate formed by a special statute to provide financial services to low income persons.	Core capital > Rs.50 mn	Core capital > Rs.10 mn	Core capital > Rs.5 mn	Core capital > Rs.1 mn
A society registered under the Societies Ordinance, No. 55 of 1949	The Board may specify requirements			

Application for licensing & Issue of Licence

- The Board shall specify the form of the application.
- Application to be made to the Board.
- The Director or an authorised officer may examine books, records etc of the person applying for licensing.
- The Board after considering a report by the Director and having regard to the potential benefits to the economy and suitability of the applicant, may issue a licence.

Licence issued to an MFI

Licence shall specify,

- Operating area.
- Terms & conditions of issuing the licence.
- Place/s from which the licensed MFI may carry on its business.
- No person other than a 'licensed micro finance institution' (LMFI) shall use the clause "licensed micro finance institution" or a clause similar to it.
- Every LMFI shall exhibit the licence issued to it at its principal office or place of business.

Licence.....

- Every licensed Institution shall pay an annual licence fee.
- The Board shall maintain a register of LMFIs

PART II

BUSINESS RESTRICTIONS TO LMFIS AND RESTRICTION ON THE USE OF CERTAIN TERMS.

An LMFI may carry on such forms of business as set out in the Schedule to the Act and any other business determined by the Board.

- No LMFI shall operate outside the operating area specified in the licence without prior written approval of the Board.
- No LMFI shall establish, relocate or close down its principal office or any branch office without the prior written approval of the Director.
- No person other than an LMFI shall, without the prior approval of the Board use in its name, the words **'micro finance', 'micro finance Institution', 'Micro Credit', 'Micro Credit Institution' or its derivatives.**

PART III

RELEVANT AUTHORITY FOR SUPERVISION

The Director shall be responsible for the supervision of LMFIs.

- The Board may appoint a person or persons for the supervision of LMFIs carrying on MFB , who'll be the Agent of the Director.
- Unless the Board has appointed some other person, the Divisional Secretary shall be the Agent of the Director for the supervision of –
 - LMFIs within his division.
 - An LMFI having the head office in his Division and carrying on MFB within the Administrative District in which his Division locates.

Powers of the Agent.

- Agent of the Director shall have the functions and powers vested in him by the Board by directions issued and granted to the Director under Parts VII (*documents & information*) and IX (*on-site examinations*) of this Act.
- Any Divisional Secretary shall have the power of inspection of branch offices and service outlets of LMFI which are outside his Division but having the head office in his Division.
- The Director may issue a special identification document or an identity card to the Agent of the Director and to those officers or employees of the Agent.
- The Director shall inform the relevant LMFI the name, identity and other relevant details of the Agent .



**Regulation of Insurance
Industry
in Sri Lanka:
Separate Regulator under a
specific legislation**

- **The Regulation of Insurance Industry Act, No. 43 of 2000**, established the Insurance Board of Sri Lanka as the body responsible for carrying out duties and functions under the Act that are intended to ensure that the insurance business in Sri Lanka is carried on with integrity and in a professional and prudent manner with a view to safeguarding the interests of policy holders. The Act stipulates the requirements for licensing persons carrying on insurance business in Sri Lanka and insurance brokers, and other prudential requirements for the insurance industry in the country;

- ***The Insurance Board of Sri Lanka (IBSL)***, has been empowered to:
- (a) Register as insurers persons carrying on insurance business (*General, long term or both*) in Sri Lanka;
- (b) Register persons as insurance brokers;
- (c) Advise the Government on the development and regulation of the insurance industry; and
- (d) Regulate the business activities and affairs of registered insurers and insurance brokers.

Special restrictions

- Only a public company incorporated in Sri Lanka can seek registration for carrying on insurance business;
- A registered insurer shall not carry on any form of business other than insurance business, provided that, a person may with the written approval of the IBSL carry on any financial service business which is ancillary or associated with the registered insurance business of such person.

Regulatory and Supervisory Issues

- Insurance business has not been specified in the proposed legislation as a permitted form of business for licensed MFIs; This is because, carrying on of insurance business requires special expertise and licensing under the Regulation of Insurance Industry Act.
- Legal issues arising from the provisions of the Regulation of Insurance Industry Act.

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- Carrying on of insurance business by an LMFI may cause supervisory concerns due to the following reasons:
 - It needs special expertise and arrangements to client analysis and operational aspects;
 - Regulatory environment is different;
 - Risk management tools are different;
 - Limitations of LMFIs in terms of resources and diversification means;

○ Limitations and deficiencies would results in -

- Increase in cost of product

- Anti-selections
- increase in loss ratio (premiums to claim ratio)

Affecting stability and sound operations of the LMFI.

Therefore, the appropriate alternative should be to arrange **appropriate insurance services/products to the MFI clients** from a specialized insurer.

Choice of insurance products

- **Life insurance** or **Credit Life** insurance?
- **Property insurance?** (property rights may cause issues)
- **Health care?** (Frauds will always be a problem;
 - Over treating
 - Over charging
 - Misrepresentation
- **Crop insurance** (would be the most appropriate for MFIs)

It should reduce the client-risks on the portfolio of the MFI.



***End of the
presentation.
Thank you***