Session 8: The Principle of Proportionality in Insurance Supervision

PROPORTIONALITY AND INCLUSIVE INSURANCE

ASSAL, SAN SALVADOR, OCTOBER 8-9th, 2025

MICHEL CANTA

In partnership with Canada

Sida

TORONTOCENTRE
Global Leadership in Financial Supervision Since 1998

OVERVIEW

- About Toronto Centre
- The Principle of Proportionality
- Proportionality: How and Why?
- Proportionality and RBS: Implementing the approach
- Proportionality and Inclusive Insurance Supervision

Founders and Funders

Global Footprint:

Since1998, Toronto Centre has trained 30,000 regulators and supervisors from 190 countries and territories including (but not limited to) the following:

Africa	Americas and Caribbean		Indo-Pacific	Europe	Middle East and North Africa
DRC	Argentina	Guatemala	Bangladesh	Armenia	Algeria
Eswatini	Bahamas	Honduras	Brunei	Azerbaijan	Egypt
Ethiopia	Barbados	Jamaica	Cambodia	Bulgaria	Israel
Ivory Coast	Bermuda	Mexico	China	Croatia	Jordan
Gabon	Brazil	Panama	Cook Islands	Finland	Morocco
Ghana	Canada	Peru	India	Germany	Qatar
Kenya	Chile	Trinidad and Tobago	Indonesia	Guernsey	U.A.E.
Mauritius	Colombia	Turks and Caicos	Malaysia	Jersey	
Namibia	Costa Rica	Uruguay	Mongolia	Lithuania	
Nigeria	Dominican Republic	U.S.A.	Myanmar	Luxembourg	
Rwanda	Ecuador		Nepal	Montenegro	
Seychelles	El Salvador		Pakistan	Norway	
South Africa	Eastern Caribbean States (ECCB)		Philippines	Poland	
Tanzania			Singapore	Russia	
Zambia			South Korea	Sweden	
			Thailand	Switzerland	
			Vietnam	Turkey	
			Central Asia	*Ukraine*	
				UK	

TORONTOCENTRE
Global Leadership in Financial Supervision Since 1998

PROGRAMMING

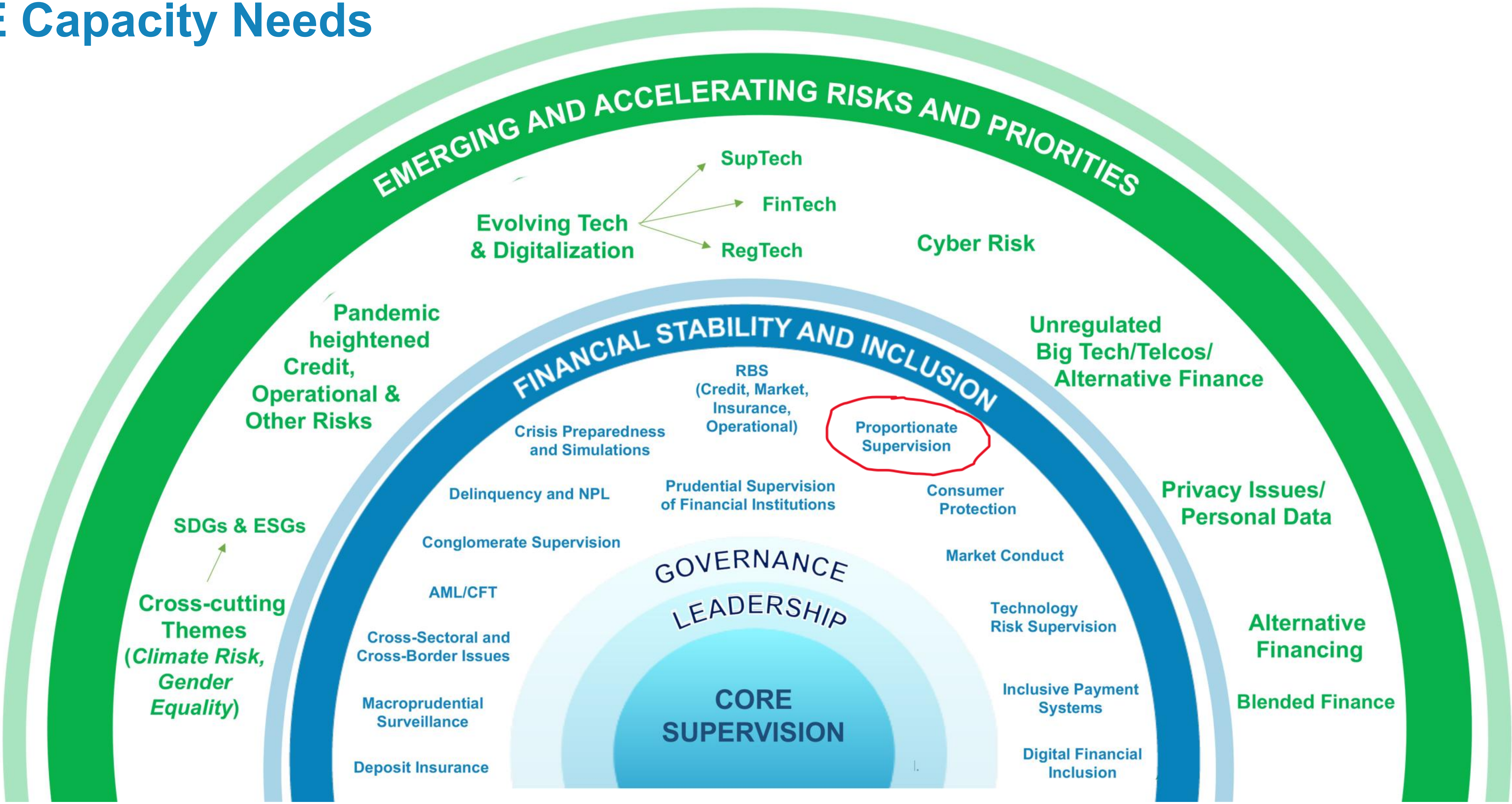
TORONTO CENTRE CONDUCTS ITS PROGRAMS WITH THESE CORE SUPERVISION AND LEADERSHIP OBJECTIVES IN MIND

- STRENGTHEN LEADERSHIP SKILLS
- BETTER CRISIS PREPAREDNESS AND MANAGEMENT
- HIGHER STANDARDS OF CONDUCT
- GREATER FINANCIAL INCLUSION
- IMPROVE FINANCIAL STABILITY

EACH OF OUR PROGRAMS HELPS PARTICIPANTS TO:

- Strengthen their agencies' capacities to perform according to international standards of supervision (core principles)
- Deal effectively with troubled financial institutions and market failures
- Improve consumer protection and combat financial crime
- Work with governments and others to create and maintain an effective legislative and regulatory framework for financial sector supervision
- Support efforts to enhance accessibility to financial services
- Work with financial institutions' management, board of directors, self-regulatory organizations, media, and others to promote and gain support for sound industry practices
- Network with peers and more senior supervisors to identify and resolve supervisory issues faced in their ongoing work

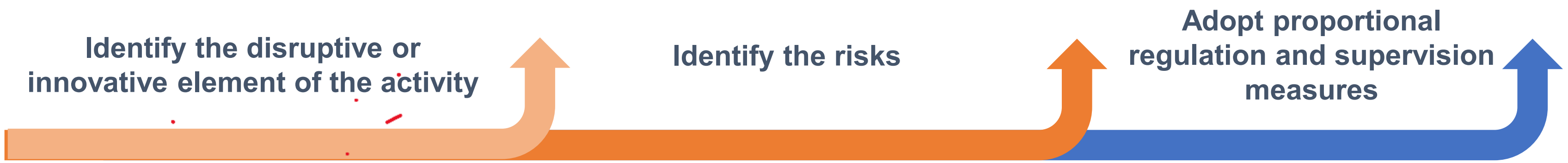
For Toronto Centre, proportionate supervision is important for improving EMDE Capacity Needs



The principle of proportionality

"The principle of proportionality requires supervisors to evaluate compliance with the regulatory framework in proportion to the nature, scale and complexity of the risks inherent to the insurers' business"

IAIS, Inclusive Insurance Application Paper, 2012



- Nature of the insurer's business
- Risks arising in this business
- Steps taken by the insurer to mitigate the risks
- Probability of these risks materialising, despite mitigation
- Possible impact of these risks, should they materialise

An observation- and evidence-based approach that allow different supervisory intensity

Proportionality: How?

Accommodate to different sectors and a range of providers and products

Balance risks and benefits against costs and benefits of being proportionate

Use regulatory and supervisory powers and tools according to risks and benefits

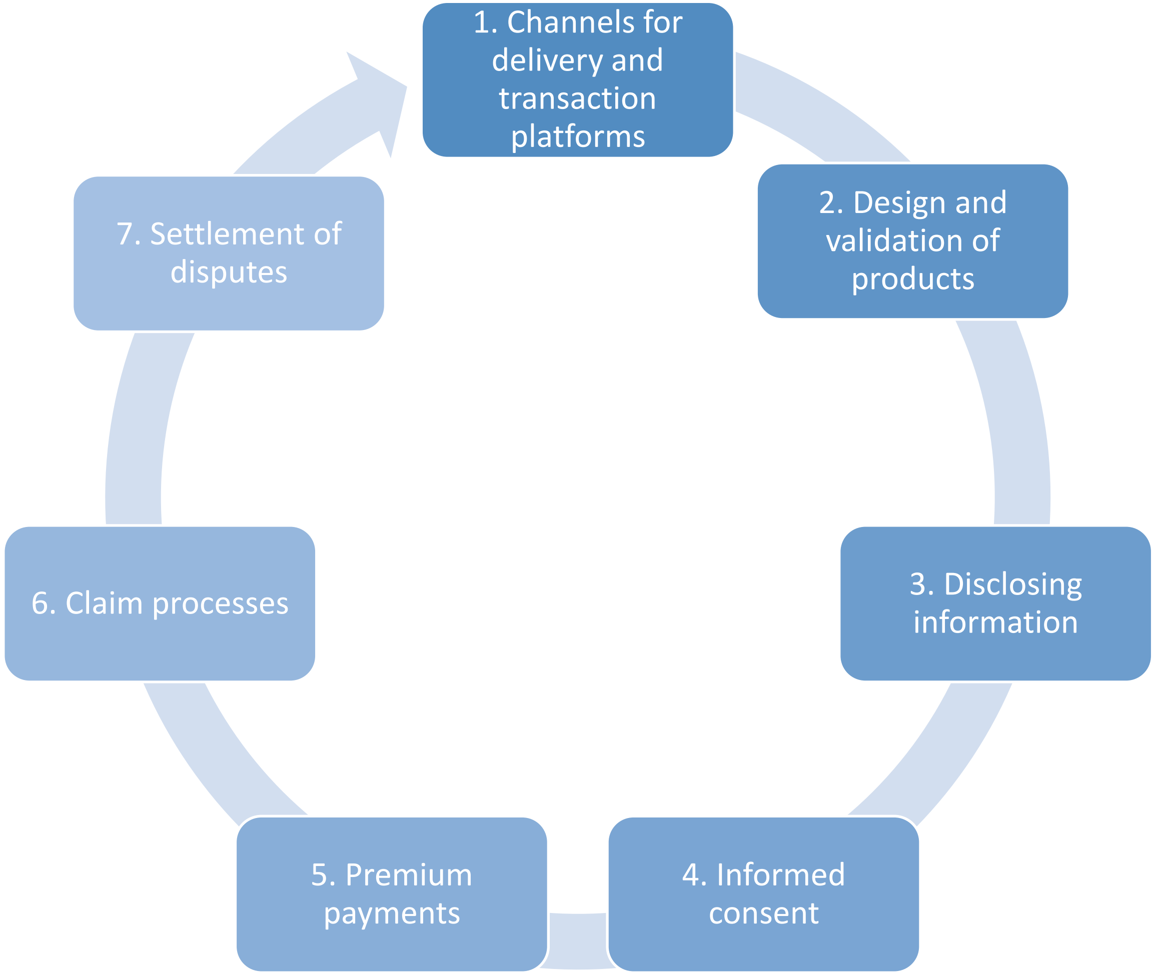
Proportionality: Why?

- Simpler, less complex ways of achieving similar outcomes that reduce unnecessary compliance costs and unnecessary complexity for insurance.
- Particularly important with small policies, small insurers, and the need for innovation.
- Avoid unnecessary or unwarranted use of supervisory resources (more efficient supervision).
- May want to reflect the social role of some smaller institutions (role in financial inclusion and gender equality)
- But also want to maintain a reasonably level playing field. Similar risks should receive equivalent treatment.

Proportionality and Risk Based Supervision: *Underlies all ICPs*

- The ICPs establish the minimum requirements for effective insurance supervision are expected to be implemented and applied in a proportionate manner.
- Supervisors have the flexibility to tailor their implementation of supervisory requirements and their application of insurance supervision to achieve the outcomes stipulated in the ICPs.
- Proportionality allows the ICPs to be translated into a jurisdiction's supervisory framework in a manner appropriate to its legal structure, market conditions and consumers.
- Proportionality allows the supervisor to increase or decrease the intensity of supervision according to the risks inherent to insurers, and the risks posed by insurers to policyholders, the insurance sector or the financial system as a whole.
- Proportionate application involves using a variety of supervisory techniques and practices which are tailored to the insurer to achieve the outcomes of the ICPs.

Proportionality can be applied across the insurance life cycle



Implementing proportional regulation and supervision

- Consultation is needed to ensure that regulatory obstacles are dealt with proportionally

- A proportionate application involves using a variety of supervisory techniques and practices which are tailored to the firm to achieve the outcomes of the IAIS standards. Such techniques and practices should not go beyond what is necessary to achieve their purpose

Proportionality approach and Inclusive Insurance Supervision

- The approach of proportionality for Inclusive Insurance is a policy aimed at making insurance markets more accessible—especially to underserved and vulnerable populations—by ensuring that regulatory frameworks are flexible, risk-based, and enabling.

- Inclusive insurance refers to insurance products that are:

  - ✓ Designed for low-income, rural, or informal sector populations
  - ✓ Often delivered through microinsurance, digital platforms, or community-based models
  - ✓ Typically involve small premiums, simple contracts, and mass-market distribution

Role of Proportionality in Inclusive Insurance Supervision

- To support inclusive insurance, supervisors must ensure that rules do not unintentionally exclude low-risk, small-scale, or innovative providers:

Objective	Supervisory Approach
Reduce entry barriers	Simplified licensing for microinsurers or digital insurers
Lower compliance burden	Streamlined reporting and governance
Support innovation	Regulatory sandboxes and test-and-learn approaches
Maintain policyholder protection	Basic but effective solvency and conduct rules

How to Apply Proportionality in Inclusive Insurance Supervision

Simplified Licensing & Registration	• Create special licensing regimes for micro insurers or low-risk inclusive insurance providers. • Set lower capital thresholds and simplified documentation requirements. • **Example**: A mutual insurer offering community-based health insurance may not need the same entry requirements as a commercial insurer.
Tiered Risk-Based Supervision	• Categorize insurers by size, risk exposure, and business model. • Apply lighter supervisory intensity to low-risk entities. • **Example:** A digital micro insurer with small number of low-premium policies may report semi-annually instead of quarterly.
Proportional Governance and Risk Management	• Permit basic governance structures for small providers (e.g., a lean board, fewer committees). • Adjust risk management expectations to reflect the simplicity of operations. • **Example**: A cooperative insurer can use a simple risk log instead of a full model.

How to Apply Proportionality in Inclusive Insurance Supervision

Simplified Reporting and Disclosure

- Shorten the list of required reports or reduce frequency for small insurers.
- Use template-based reporting or digital submissions

Flexible Conduct Supervision

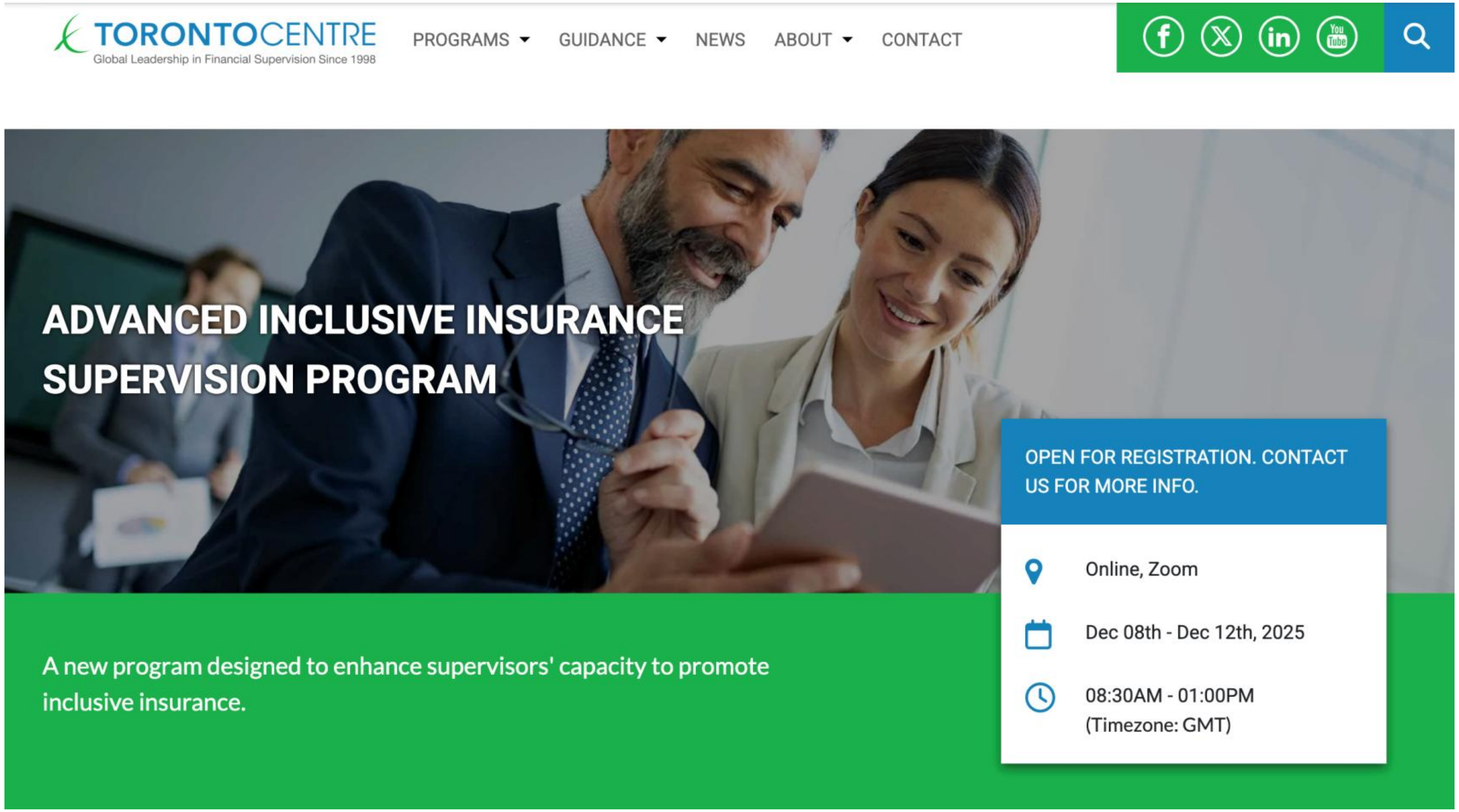
- Focus on clear product disclosures, fair treatment, and dispute resolution—without overly prescriptive rules.
- Allow simplified policy wording and flexible delivery channels (e.g., SMS, mobile apps).

Supportive Innovation Tools

- Establish regulatory sandboxes for inclusive insurance innovations.
- Allow test-and-learn pilots with temporary waivers or conditional approvals.

Proportionality is not about lowering standards, but about tailoring them to fit the real risks—so that inclusive insurance can grow safely, sustainably, and fairly

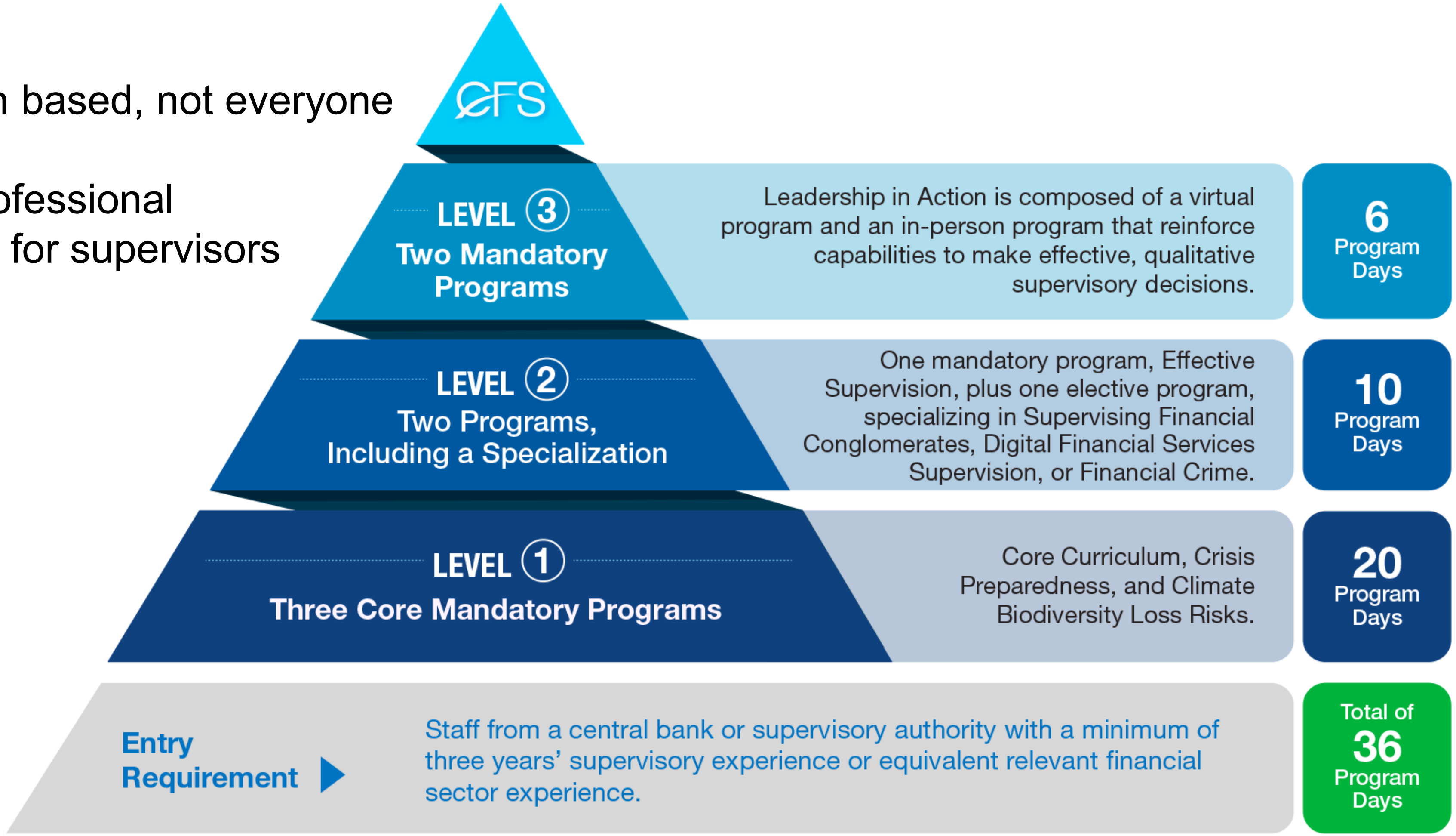
For more on proportionality in inclusive insurance, join us



TORONTOCENTRE
Global Leadership in Financial Supervision Since 1998

We also provide a Certified Financial Supervisor Designation: The only supervisory designation anywhere

- Examination based, not everyone Passes
- The only professional designation for supervisors anywhere

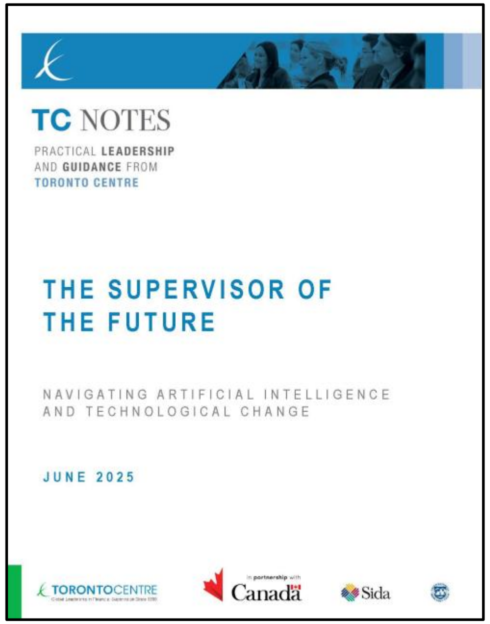


TORONTOCENTRE
Global Leadership in Financial Supervision Since 1998

STAY INFORMED

- Visit our website for the latest resources for supervisors including **Toronto Centre Notes, Programs, Toolkits, Podcasts, and Webinars**.

TC Notes & Toolkits



Podcasts

APPLE PODCASTS

SPOTIFY

Webinars

TORONTOCENTRE
Global Leadership in Financial Supervision Since 1998

KEY REFERENCES

- IAIS. Application paper on Regulation and Supervision supporting Inclusive Insurance Market. October 2012.
- IAIS. Application paper on Product Oversight in Inclusive Insurance. November 2017.
- Access to Insurance Initiative (AII). Proportionate Regulatory Framework in Inclusive Insurance. November 2016.
- Financial Stability Institute (FSI). Proportionality in the application of the insurance solvency requirements. FSI Insights N° 14. December 2018.
- Toronto Centre Inclusive Insurance Portal. www.torontocentre.org
- Toronto Centre Note. Supervising Inclusive Financial Sectors . October 2023.


Q
A

THANK YOU

FOUNDERS AND FUNDERS

In partnership with Canada

Sida

International Monetary Fund

JOA JERSEY OVERSEAS AID

giz

WORLD BANK GROUP

Schulich School of Business | YORK U