



ASSESSMENT OF MICROINSURANCE AS EMERGING MICROFINANCE SERVICE FOR THE POOR

THE CASE OF THE PHILIPPINES

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Abbreviations

ADB	Asian Development Bank
ADReM	Alternative Dispute Resolution Framework for Microinsurance
ASEAN	Association of Southeast Asian Nations
BSP	Bangko Sentral ng Pilipinas (central bank of the Philippines)
CDA	Cooperative Development Authority
CISP	Cooperative Insurance System of the Philippines
CLIMBS	Coop Life Insurance and Mutual Benefit Services
DOF	Department of Finance
EWS	early warning system
GDP	gross domestic product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)
HMO	health maintenance organization
JFPR	Japan Fund for Poverty Reduction
KPI	key performance indicators
KYC	know your customer
LGU	local government unit
MBA	mutual benefit association
MFI	microfinance institution
MicroAgri	agricultural microinsurance
MicroHealth	Health Microinsurance
NCC	National Credit Council
NGO	nongovernment organization
NHIP	National Health Insurance Program
PCIC	Philippine Crop Insurance Corporation
PhilHealth	Philippine Health Insurance Corporation
PIRA	Philippine Insurers and Reinsurers Association
PLIA	Philippine Life Insurance Association
RBAP	Rural Bankers Association of the Philippines
RBC	risk-based capital
RIMANSI	Risk Management Solutions, Inc.
SEC	Securities and Exchange Commission
TWG	technical working group



Executive Summary

From the early 1970s to the 1990s, the Government of the Philippines was engaged in delivery of subsidized credit programs. Since these programs were largely unsuccessful in meeting the objective of providing sustainable access to credit and other financial services for the poor, it led to development of the National Strategy for Microfinance in 1997. This was followed by issuance of policy measures and associated regulations as well as enactment of new laws, prompting the government to leave provision of credit to the private sector. The microfinance industry developed rapidly as a result, applying market-based financial and credit policies such as market-oriented interest rates on loans and deposits. Aside from the banks, cooperatives and microfinance nongovernment organizations also provided microfinance and, by 2013, there were more than 2,000 microfinance institutions, including branches, and about 7 million microfinance clients (from only about less than half a million before 1997). Outreach had progressed to 9 million clients by the end of 2015.¹

With most of their target markets living below the poverty line, many nongovernment organizations and cooperatives saw the need to offer insurance services that protected their member-clients from a deeper descent into poverty when affected by sickness or other types of risk events. While some of the institutions partnered with licensed insurance providers, many others carried the insurance risk informally, which was deemed by financial regulators (Bangko Sentral ng Pilipinas [the central bank of the Philippines] and the Insurance Commission) as a risk to both the public and the institutions themselves.

To stem the proliferation of informal insurance, in 2006, the Insurance Commission issued a groundbreaking circular that defined microinsurance, identified the essential features of a microinsurance policy, and lowered the initial guarantee fund requirements of a mutual benefit association (MBA) wholly engaged in microinsurance. This resulted in the formation of a few microinsurance MBAs, but it did not significantly reduce informal insurance activity. Mounting concern prompted the issuance of three joint circulars by the Insurance Commission, the Co-operative Development Authority, and the Securities and Exchange Commission in 2010 and 2011, which called on all organizations engaged in informal insurance-like activities to formalize, either by partnering with an existing insurance provider or by securing a certificate of authority as a microinsurance risk-carrier (such as a microinsurance MBA).

To facilitate microinsurance market development, to halt the proliferation of informal insurance activities, and recognizing the inherent limitations of microinsurance MBAs, the Department of Finance–National Credit Council, in coordination with the Insurance Commission and with technical assistance from the Asian Development Bank (ADB) and the German Agency for International Cooperation (GIZ), formulated and developed the Regulatory Framework on Microinsurance and the National Strategy for Microinsurance in 2009.² The National Strategy for Microinsurance defines

¹ According to Bangko Sentral ng Pilipinas (BSP) data.

² Funding support came from the Japan Fund for Poverty Reduction (JFPR) through the Developing Microinsurance Project (ADB–JFPR Grant 9118). The project was executed by the Department of Finance–National Credit Council and implemented by the Insurance Commission in 2008–2012. A second project, ADB–JFPR TA 8258 PHI: Capacity Building for Microinsurance, followed (2013–2016).



the objectives, roles of various stakeholders, and key strategies to be pursued in enhancing access to insurance by the poor. The Regulatory Framework on Microinsurance defines and outlines the necessary regulatory and policy measures that should be adopted and implemented by concerned regulatory authorities to facilitate the participation of the private sector in providing risk protection for the poor. It also ensures that the rights and privileges of the insured poor are protected and promptly acted upon, and outlines a formalization path for informal providers.

Both of these were developed by technical working groups composed of representatives from all relevant government agencies and private industry. Similarly, several other policy frameworks were developed from 2012 to 2016 (summarized in the table below).

Microinsurance Framework and/or Regulation

Framework and/or Regulation	Main Areas Addressed
2015 Enhanced Microinsurance Regulatory Framework	<ul style="list-style-type: none"> • Permissible functions of regular agents, general agents, and brokers in microinsurance provision • How microinsurance products may be bundled • Cession and acceptance of microinsurance risk • Others
2015 Agriculture Microinsurance Framework	<ul style="list-style-type: none"> • Definition of indemnity-based and parametric-based MicroAgri products • Types of agricultural assets that may be covered, the risk events that may be insured against • Eligibility of consumers that may purchase these products including proof of insurable interest for enrolment and claims • Types of products that may be developed by each type of provider and how products may be distributed • For parametric-based products, specification of the parameters that may be used for constructing the loss formulae and triggers, data to be used for provision of such products, the documentation requirements for claiming, and the payout standards to be applied
2014 Alternative Dispute Resolution Framework for Microinsurance (ADReM)	Addresses resolution of disputes arising from microinsurance contracts, providing various modalities that are low-cost, accessible, practical, effective, and timely
2015 Micro Pre-Need Regulatory Framework	<ul style="list-style-type: none"> • Defines “micro pre-need” products for the first time • Patterned after the Microinsurance Regulatory Framework and Microinsurance Enhanced Regulatory Framework, the framework addresses the same areas as applicable to micro pre-need • Specifies permissible providers, distribution, claims, and others

continued on next page

*Table continued*

Framework and/or Regulation	Main Areas Addressed
2016 Regulations for the Provision of Health Microinsurance (MicroHealth) Products and Services	Defines what MicroHealth products are, permissible providers and distributors, bundling with other products, etc.
2016 Distribution Channels and Consumer Protection Framework	<ul style="list-style-type: none"> • Supplements and expands existing regulations on distribution channels for microinsurance, micro pre-need, and health microinsurance products • Defines acceptable distribution channels that may be contracted; describes the permissible functions and activities of distribution channels; lays out the responsibilities and market conduct of distribution channels and all parties involved; prescribes measures to follow which will ensure that the rights of consumers are protected; and others
2016 Enhanced Performance Indicators and Standards for Microinsurance	<ul style="list-style-type: none"> • Modification of 2013 Microinsurance Standards, it defines the performance indicators in various areas such as solvency and servicing. The indicators are to be calculated by microinsurance providers and submitted periodically to the Insurance Commission. It also describes the expected performance standards measured by the various indicators.

Source: The technical working groups under the Microinsurance Steering Committee.

In implementing ADB and GIZ projects, there were a number of important lessons learned. One of these is that technical working groups (TWGs) with participation from both the government and the private sector play an important role in the reform process. During project implementation, TWGs were created and used as venues in discussing important policy and regulatory issues that need to be addressed for the development of the microinsurance industry. These TWGs comprised representatives from government policy and regulatory agencies, insurance industry associations, organization of microfinance institutions, and other concerned stakeholders. Discussions and agreements reached during the TWG meetings were used as basis in the issuance of relevant policy and regulatory reform measures. Being part of discussions during policy formulation, the private sector's acceptance and ownership of the policy and regulatory reform measures from the onset resulted in smooth implementation of the reforms.

The microinsurance industry flourished over the years in the well-established policy and regulatory environment, benefiting as well from the increased awareness and interest among key stakeholders. Industry data consolidated by the Insurance Commission indicated approximately 30 million Filipinos (including their dependents) had received some form of formal risk protection coverage both in 2014 and 2015; however, there is still much room for growth.³

To ensure further expansion of the micro risk protection (microinsurance, micro pre-need, MicroHealth) market, it is necessary to sustain the interest of providers and distributors (to increase supply and access) and build trust and confidence among consumers (to increase demand). To accomplish these, some major challenges and issues require resolution. Topmost among these is the capacity of the Insurance Commission which should be able to adequately protect the interests of

³ The actual number of those effectively covered would likely be lower once the duplicate coverages were fully accounted for.



insureds while ensuring growth and stability. In this regard, the capacity of the Insurance Commission still needs to be enhanced.

Some of the main regulatory challenges are as follows:

- (i) *Effectiveness and soundness of innovative delivery channels.* The 2016 Distribution Channels and Consumer Protection Framework has been developed but has not been completely finalized over a debate between the Insurance Commission and the private sector regarding channel accreditation. To avoid regulatory bottlenecks, the industry argues that Insurance Commission should leave channel contractors to select their distribution channels, drop the idea of Insurance Commission accreditation of each channel, and instead place full responsibility of channel conduct on the contractors.
- (ii) *Consumer protection.* Appropriate codes of conduct among microinsurance providers, reinsurers, intermediaries, and other players in the delivery chain are needed to ensure transparency. Also, the Alternative Dispute Resolution in Microinsurance is not being utilized; the reason for low utilization requires study and possible improvements.
- (iii) *Risk-based supervision.* For accelerating growth of the micro risk protection industries, it is important for the Insurance Commission to adopt and implement risk-based supervision. Toward this, the Insurance Commission should (a) revive the use of the early warning system that was already developed; (b) capacitate Insurance Commission examiners to better understand and use (as a tool) a set of key performance indicators such as those defined in 2016 Enhanced Performance Indicators and Standards for Microinsurance; (c) capacitate Insurance Commission examiners to develop a deeper understanding of the corporate governance reports; (d) develop risk-based capital calculations for pre-need companies, mutual benefit associations, and health maintenance organizations; and (e) develop standardized reporting templates for all types of risk carriers and intermediaries, integrating risk-based capital and key performance indicators.
- (iv) *Informal insurance.* Many cooperatives, supported by some in the Cooperative Development Authority, strongly believe that a regulatory space should be created for informal member risk protection services. This would safely address the persistency of these programs in a technically sound manner if they were also required to partner with insurers, actuaries, brokers, etc. for technical and administrative services and co-insurance. Self-insurance of larger groups is prudentially practiced in many developed countries and often results in more efficient delivery of certain types of risk protection services.
- (v) *Index-based and agricultural microinsurance.* With increased frequency of natural calamities due to climate change, the use and adoption of parametric insurance products should be given emphasis, especially those that cover agricultural assets. The 2015 Agriculture Microinsurance Framework was developed to facilitate the development of MicroAgri by the private sector, in partnership with the public sector, where practical and possible. Proper implementation requires the Insurance Commission to come up with detailed guidelines. For the providers of these products, permanent and adequate reinsurance is a critical necessity. One of the potential reinsurers is Philippine Crop Insurance Corporation. Another possibility is the establishment of a government-owned reinsurer focused on reinsuring catastrophic and agricultural risks (see below).
- (vi) *Product approval.* For efficiency, file-and-use system of product approval should be gradually adopted, as that in India. This is an intermediate step toward no product approval at all as practiced in many developed countries which have also fully implemented risk-based supervision.



- (vii) *Data processing and sharing.* Industry stakeholders are calling for more extensive and timely data sharing by the Insurance Commission. If more standard templates were developed and the report-generating tools developed for the Insurance Commission in 2012 were used, data sharing and reporting with stakeholders could be greatly enhanced.
- (viii) *Reinsurance for catastrophic and agricultural risks.* While market appetite for protection against calamities greatly increased after Typhoon Haiyan (locally named Yolanda), insurers can no longer offer similar coverage value mainly because reinsurance is either not available or it has become too expensive due to this catastrophic event. Stakeholders therefore propose the establishment of an industry-wide risk pool for reinsuring the main catastrophic risks that the country is vulnerable to.⁴ This should be a public-private initiative between the Government of the Philippines, the Insurance Commission, and the private sector. It could also take the form of a dedicated reinsurance company, capitalized and backed by the government with private sector participation, and either registered under the existing Insurance Code or under its own special law. This company, together with the Philippine Crop Insurance Corporation, should also be able to accept agricultural reinsurance risks.
- (ix) *Financial literacy.* Every local government unit in the country should be capacitated to deliver financial literacy training in the entire community on a permanent basis. This would enhance understanding, appetite, and trust in the risk protection market and advance the objective of maximum penetration. This is justifiable in that it meets government objectives to protect the public from life cycle and risk events that perpetuate poverty.
- (x) *Anti-Money Laundering Act.* Microinsurance providers and distributors opine that the “know your customer” requirements are unnecessarily strict and need to be relaxed.

⁴ Risk pool participants would be required to follow certain governance, management, and underwriting standards.



Sector Assessment: Development and Strategic Issues

Sector Overview

Microfinance Development in the Philippines

Like some other countries where a sizable proportion of the population does not have access to financial services, the Government of the Philippines had been largely engaged in the provision of subsidized credit programs from the early 1970s to the 1990s. These credit programs were mostly directed to the agriculture sector and the small entrepreneurs in the industry sector. In 1997, the National Credit Council reported that about 86 directed subsidized credit programs were implemented by almost 20 government nonfinancial agencies.⁵ Despite the number, these credit programs did not result in providing the poor access to credit and other financial services. More often than not, these programs were seen as handouts by a majority of borrowers, resulting in poor repayment rates and large fiscal losses on the part of the government.

Recognizing the ineffectiveness and inefficiencies of implementing directed subsidized credit programs, the government, in consultation with the private sector (consisting mostly of financial institutions, nongovernment organizations [NGOs], cooperatives, and people's organizations), adopted and issued the National Strategy for Microfinance in 1997. The strategy envisions the establishment of a viable and sustainable microfinancial market through the adoption and implementation of the following policy principles: (i) greater role of the private sector or microfinance institutions (MFIs) in the provision of financial services; (ii) establishment of an enabling policy environment that will facilitate the increased participation of the private sector in microfinance; (iii) adoption of market-oriented financial and credit policies, e.g., market-oriented interest rates on loans and deposits; and (iv) nonparticipation of government line agencies in the implementation of credit and guarantee programs.

The adoption of the National Strategy for Microfinance led to the issuance of policy measures and relevant regulations, and the enactment of laws that prompted the government to veer from implementing subsidized credit programs. Foremost of these are the following: (i) Agriculture and Fisheries Modernization Act (RA 8425), which provides for the non-provision of credit subsidies, phaseout of directed subsidized agriculture credit programs, and adoption of market-based interest

⁵ The National Credit Council is an agency under the Department of Finance created by virtue of Administrative Order No. 86 on 8 October 1993. It is mandated to (i) rationalize and optimize government credit programs, (ii) develop a credit delivery system that incorporates capability upgrading and institutional strengthening mechanisms, (iii) encourage greater private sector participation in the delivery of credit, and (iv) define and rationalize the role of guarantee programs and guarantee agencies.



rates for agricultural credit; and (ii) Executive Order No. 138, which provides for the adoption of market-based financial and credit policies and the nonparticipation of government nonfinancial agencies in the implementation of credit programs. As a result of these issuances, government nonfinancial agencies were no longer allowed to implement credit programs. Government financial institutions, on the other hand, are allowed to lend by providing wholesale funds to private financial institutions using market-based interest rates.

In line with the policy espoused in the national strategy, the General Banking Act of 2000 was also enacted, which mandated the central bank of the Philippines (BSP) to formulate and issue regulations that recognize the peculiar characteristics of microfinance. As a result, the BSP issued relevant circulars that allow non-collateralized cash flow-based lending. Succeeding circulars providing the appropriate regulatory environment that encourages banks to engage in microfinance were also issued (e.g., lifting of the moratorium on bank branching for banks engaged in microfinance operations). These circulars, together with the adoption of a market-based interest rate policy, opened the gate for banks to provide microfinance services to the low-income sector. By 30 June 2011, 198 banks had already engaged in microfinance operations (which, by 2015 year-end, had been reduced to 170, perhaps in part due to consolidation within the sector and closing of some weaker banks in the months prior).⁶ Recognizing the viability of microfinance as an industry, several commercial banks provided wholesale funds to private financial institutions engaged in retail microfinance services. Some commercial banks, however, opted to establish their own rural or thrift banks that are wholly engaged in microfinance operations.

These landmark reforms paved the way for increased private sector participation in the provision of financial services to the low-income sector. Aside from the banks, cooperatives and microfinance NGOs also provide microfinance services to this sector. Thus, from fewer than 500 MFIs engaged in the provision of microfinance services in 1997, by 2013 there were more than 2,000 MFIs, including branches, and about 7 million microfinance clients from only about less than half a million before that year. Outreach progressed still further to as high as 9 million clients, as indicated by BSP 2015 year-end data.⁷

Given these developments, the Philippines is considered one of the countries in Asia with a relatively developed microfinance industry that provides financial services to the low-income sector. In fact, for 3 consecutive years (2009–2011), the Economist Intelligence Unit recognized the Philippines as one of the countries in Asia with “very strong regulatory regimes and good prospects for MFIs to enter the sector (i.e., provision of financial services to the low-income market) and perform effectively.”⁸ In 2010–2011, the country was deemed as having the best microfinance regulatory framework among 54 countries.

⁶ BSP. Financial Inclusion in the Philippines Key Data Elements as of Fourth Quarter 2015, 2016.

⁷ BSP 2015 year-end data: 170 banks were servicing 1.47 million microfinance borrowers as of 2015 year-end, 2,205 MFI-NGOs had loans with 2.5 million client-members at 2014 year-end, while CDA data showed that 7,247 financial service cooperatives had a total membership of 6.5 million at end of 2013. Without taking into account the further development of MFI-NGO and cooperative data to the end of 2015, by assuming that 80% of financial services cooperative members were low-income borrowers, and while ignoring over 5 million micro-depositors in banks due to the overlap with borrower data, one could readily infer that the microfinance clientele totaled over 9 million at end of 2015.

⁸ The Economist Intelligence Unit. 2009–2011. Global Microscope on the Microfinance Business Environment. 2009.



Based on a 2009 report, in the Philippines, 26.5% of the population was living below the poverty line.⁹ This constituted about 3.86 million poor families (or 23.1 million individuals) providing a huge market for microfinance products and services. As MFIs became more familiar with the needs and demands of their clients, various types of microfinance products that cater to both the clients' entrepreneurial and consumption smoothing needs were developed. Payment transfers and remittance products and services have also been made available to cater to the needs of low-income households with family members leaving or working abroad or in other localities.

Aside from these services, MFIs have recognized for many years the need of the low-income sector for risk protection. Savings and credit alone are not enough to protect the poor from unforeseen and unfortunate events such as death, injury, illness, and loss of property. The poor are most vulnerable to these types of contingency. Without appropriate risk protection, income gains from microfinance can easily be eroded, preventing the poor and their dependents from improving their lives and overcoming poverty.

Recognizing the need of the low-income sector for risk protection, a number of MFIs started to provide and facilitate the provision of insurance products to their clients. Some MFIs partnered with commercial insurance companies by buying group insurance policies for their members. Most of these insurance policies, however, were credit life insurance aimed at protecting the lending institution rather than the client. Other MFIs and some cooperatives opted to organize their client-members into a mutual benefit association (MBA), an entity separate from an MFI, which provides basic insurance products to its members. Cooperatives, in addition, also invested in cooperative insurance societies which provide and sell insurance products to primary cooperative members.

As of 2010, a large number of MFIs were engaged in informal insurance schemes. These schemes involve the regular collection of a fixed amount from the clients with a promise to pay a guaranteed amount of benefit when a contingency happens. Since these entities do not have any certificate of authority from the Insurance Commission to provide insurance products and services, the schemes are classified as informal insurance activities. The study conducted by Llanto, Geron, and Almario (2008) estimated that about half of the 22,000 operating cooperatives in the country provide some form of insurance to their members through "mutual fund schemes," which are not licensed by the Insurance Commission.

Concern over these types of programs prompted the issuance of three joint circulars by the Insurance Commission, the Cooperative Development Authority (CDA), and the Securities and Exchange Commission (SEC) in 2010 and 2011, which called on all organizations engaged in informal insurance-like activities to formalize, either by partnering with an existing insurance provider or by securing a certificate of authority as a microinsurance risk-carrier. A large number of informal programs had complied by 2015; however, informal insurance still remained a "significant problem," to an extent that could not be readily quantified.¹⁰

⁹ The National Statistical Coordination Board reported that, in 2009, a Filipino family of five needed an income of P4,869 monthly (P974 per Filipino) to meet food needs, and P7,017 (P1,403 per Filipino) to stay out of poverty. These are the minimum amounts necessary to meet basic needs—food, housing, education, and health.

¹⁰ Source: Insurance Commission.



Insurance Industry in the Philippines

The Amended Insurance Code of the Philippines provides the framework for the regulatory and policy environment of the insurance industry in the Philippines.¹¹ The code designates the Insurance Commission as the regulatory authority mandated to supervise and examine all the players in the industry. In addition, the Insurance Commission regulates the pre-need industry¹² as well as the managed health-care industry.¹³

The insurance industry in the Philippines comprises the commercial life and nonlife insurance companies, MBAs, cooperative insurance societies, agents, and brokers. All entities providing insurance products and services are required to secure a license to operate from the Insurance Commission.

As of October 2016, there were a total of 99 commercial insurance companies whose certificates of authority to conduct insurance business were renewed for 2016–2018. This number comprised of 4 composites, 27 life companies, 65 nonlife companies, 1 reinsurance company, and 2 servicing insurance companies. Among these were two cooperative insurance societies that were at the same time licensed as commercial insurance companies—one of them a life company and the other a composite. For the same license year, the regulator had given the nod to 34 MBAs of which 22 were wholly engaged in microinsurance business as well as to 17 pre-need companies and 14 health maintenance organizations (HMOs).

In the Philippines, the insurance industry has grown steadily over time. Prior to 2011, premium growth was slower than many of its Association of Southeast Asian Nations (ASEAN) neighbors but, in 2011–2014, growth accelerated and outpaced that of all other ASEAN countries.¹⁴ In terms of asset and insurance premium volume, the Philippines ranks fifth among the ASEAN countries, a position Swiss Re does not expect to change for at least a few years.¹⁵ Nevertheless, in terms of liberalization of the life insurance industry, the Philippines ranks second behind only Singapore, according to a recent study by Milliman.¹⁶

¹¹ Republic Act 10607 was promulgated on 15 August 2013 to amend and strengthen the 38-year-old Insurance Code of the Philippines, or Presidential Decree 612, which was issued on 18 December 1974. The code was originally amended by Presidential Decree 1460, the Insurance Code of 1978, which took effect on 11 June 1978 as well as by Presidential Decrees 1141, 1280, 1455, 1814, and 1981, as well as Batas Pambansa Blg. 874. Only insurance contracts with guaranteed benefits are covered by the code, while risk pooling arrangements such as *damayan* funds, where benefits are not guaranteed, are not covered. *Damayan* is a risk pooling practice wherein individuals or groups of individuals voluntarily pledge and contribute a certain amount to a fund, and the benefits are not predetermined but are contingent on the amounts collected. Total amount collected is given to the affected member or family of the member upon contingency.

¹² The pre-need industry is regulated per Republic Act 9829 (27 July 2009), otherwise known as the Pre-Need Code of the Philippines. The code defines pre-need as “contracts, agreements, deeds or plans for the benefit of the planholders which provide for the performance of future service/s, payment of monetary considerations or delivery of other benefits at the time of actual need or agreed maturity date, as specified therein, in exchange for cash or installment amounts with or without interest or insurance coverage and includes life, pension, education, interment and other plans, instruments, contracts or deeds as may in the future be determined by the [Insurance] Commission.”

¹³ On 12 November 2015, Executive Order No. 192 was signed to transfer the regulation and supervision over Health Maintenance Organizations from the Department of Health to the Insurance Commission.

¹⁴ Swiss Re. 2015. *A Journey Starts – Inauguration of the ASEAN Economic Community*. December 2015.

¹⁵ Footnote 14.

¹⁶ Department of Finance. 2015 A study conducted by Milliman, a global actuarial and research firm, attempted to measure the openness of life insurance regulatory regimes of the ASEAN economies with regard to their alignment with international standards. The Milliman ASEAN Liberalisation Index reflects the stages of development of insurance markets in each member state. An economy with a high Milliman ASEAN Liberalisation Index score signifies a liberal market, while a low score indicates a more tightly controlled industry with typically less foreign participation.



As of 30 September 2015, the total assets of the insurance industry amounted to P1,089 billion, of which 84.6% were contributions of the life sector and 15.4% of the nonlife sector. The total net worth of the insurance industry was P195.4 billion as of that date.¹⁷

The combined premium income of the insurance industry reached P197 billion in 2014, dropping slightly from the previous year's level. Despite the recent growth spurt in premium income, insurance activity was a mere 1.56% of the country's gross domestic product (GDP) in 2014, lower than in 2013. Life sum insured as percentage to GDP, however, jumped from 31.71% in 2013 to 37.13% in 2014.

Table 1: Insurance Data Over Time, 2010–2014

	2010	2011	2012	2013	2014
Gross National Income (GNI)					
Current Price *	10,852,432	11,598,205	12,608,730	13,850,892	15,327,336
Constant Price *	6,851,138	7,039,948	7,496,546	8,069,033	8,640,645
Gross Domestic Product (GDP)					
Current Price *	9,003,480	9,706,268	10,564,886	11,548,191	12,642,736
Constant Price *	5,701,539	5,909,000	6,311,671	6,755,458	7,164,017
Population (million)**	92.6	94.2	96.4 (r)	98.8 (r)	99.9 (p)
Per Capita GNI	117,197	123,123	130,796 (r)	140,191(r)	153,427(p)
Labor Force (Average)***	38.91	40.00	40.43	41.02	40.05
Employed***	36.05	37.19	37.60	38.12	37.31
Unemployed***	2.86	2.81	2.83	2.90	2.74
Exchange Rate (P / \$) †	43.88	43.93	41.19	44.41	44.62
Inflation Rate (%) **	1.51	2.72	3.20(r)	3.20	4.10 (p)
Per Capita Expenditure (P)	1,055.6	1,241.5	1,592.0	2,804.0	1,974.2 (p)
Life Insurance	807.8	966.4	1,301.6	1,789.1	1,653.3 (p)
Nonlife Insurance	247.8	275.1	290.4	294.9	320.9 (p)
Life Sum Insured (% of GDP)	25.56	30.80	34.85	31.71	37.13
Life Sum Insured (% of GNP)	21.21	25.78	29.20	26.43	30.63

¹⁷ Source: Insurance Commission.



Table 1 continued

	2010	2011	2012	2013	2014
Premiums (Life and Nonlife)					
% GDP (ins. penetration)	1.09	1.20	1.45	1.78	1.56
% GNI	0.90	1.01	1.22	1.49	1.29
Gross Value Added on Insurance	97,749	116,949	153,469	205,899	197,223
Estimated Life Insurance Coverage (% of population)	16.33	18.29	24.43	32.45	37.39

* _ Per Philippine Statistical Authority's National Income Account (base year 2000), in million pesos.

** Per Philippine Statistical Authority.

***In million persons.

†Per Bangko Sentral ng Pilipinas.

(r)_revised figures.

(p) preliminary figures.

Source: Insurance Commission.

The average amount of insurance spent by each Filipino increased from P1,056 (\$24.06) in 2010 to P1,974 (\$44.24) in 2014. Of this amount, about 84% was spent on life insurance and only about 16% for nonlife insurance. The total amount spent on insurance was 1.3% of per capita income in 2014.

The insurance penetration rate, which is the ratio of insurance premiums to GDP, was only 1.56% in 2014 although this had increased by 43% from the 2010 level of 1.09%. This rate is still low compared with that of some ASEAN neighbors. A Swiss Re report pegged the 2014 insurance penetration of Singapore at almost 7%, Thailand at 5%, Malaysia at over 4%, and the Philippines at a distant fourth at 1.56%. Indonesia and Brunei Darussalam were slightly lower at about 1.5%, while the rest of the ASEAN countries stood below 0.5%.¹⁸

The relatively low level of insurance activity, as well as the low level of expenditure on insurance services, indicates the importance of insurance as a financial service in the country. This is further substantiated by the fairly low proportion of the population with life coverage. The life coverage ratio, however, improved dramatically in 2012–2014 due to the rapid expansion of the microinsurance sector, more than doubling from 16.33% in 2010 to 37.39% in 2014. Despite these gains, there is still substantial room for growth for the insurance industry in the Philippines.

Llanto, Geron, and Almarino in 2009 estimated that only about 3.1% of the adult population in the low-income market had insurance from licensed insurance providers. These were mostly clients of MFIs availing of credit life insurance. With the recent strides made in formalization of unregulated programs, this number has significantly improved further as evidenced by the growing national life coverage ratio.

Even then, more risk protection is needed by the poor who are especially vulnerable to catastrophic risks that are expected to intensify as a result of climate change. Their assets and economic activities exposed to natural perils need to be protected to preserve the gains that they have made to escape from the poverty quagmire.

¹⁸ Footnote 14.



Microfinance Sector Assessment

Government Policy Thrusts and Sector Strategy

The proportion of poor Filipinos living below the poverty line remains obstinately high despite the increase in the country's economic growth rate in recent years. The National Statistical Coordination Board reported that individual poverty incidence was 28.4% in 2000, 26.4% in 2006, and 26.5% in 2009.¹⁹ Rates declined somewhat in 2012 to a low of 24.7% by the first quarter of 2013, only to rise up again to 25.8% by the first quarter of 2014 in part due to the effects of Typhoon Haiyan (Yolanda).²⁰ A year later, in the first quarter of 2015, it had climbed still further to 26.3%, which, at the time, translated to 26.5 million poor Filipinos.²¹

Individual poverty incidence is now the second highest among the ASEAN countries, being lower only than Myanmar's rate.²² In contrast, the average annual nominal GDP growth rate (in United States dollars) was well over 8% within the period 2000–2014.²³

The national government has reacted to the lack of trickle-down effect by introducing a conditional cash transfer program now more popularly known as 4Ps (*Pantawid Pamilyang Pilipino Program*). Described as a social protection program, it attempts to facilitate inclusive growth by redistributing income to targeted poor families which have benefited little from economic growth and improved services. Critics, however, view it as a mere stopgap measure that fails to address the root structural problems in the economy that result in poverty.²⁴

To more effectively address poverty, past studies and discussions highlighted the importance of providing the poor access to various types of financial services. Household surveys and other empirical evidence showed that providing the poor access to financial services makes a substantial difference in improving their lives (World Bank 2011a).

The Financial Sector Program Update (World Bank 2011b) reported that only about 30% of Filipinos used formal financial services (lower than the East Asia average).²⁵ This number has not improved by much in recent years, remaining at just 31.3% according to a 2015 BSP publication.²⁶ The World Bank further reported that, while the number of formal financial institution branches has been increasing, access to and use of financial services have remained limited for poorer and more rural areas. This is further substantiated by a National Statistical Coordination Board report which reveals that, among

¹⁹ ADB. 2012. *Basic Statistics 2012*. Manila.

²⁰ *Philippine Daily Inquirer*. 2015. Philippine Poverty after Five Years on Aquino's Watch—a SONA Special Report. Manila. 26 July.

²¹ *Philippine Daily Inquirer*. 2016. 12m Filipinos Living in Extreme Poverty. 18 March.

²² Central Intelligence Agency. 2016. *The World Factbook*. www.cia.gov/library/publications/the-world-factbook/

²³ According to an online post (<http://www.tradingeconomics.com/philippines/gdp>), the country's GDP in 2000 was \$81.03 billion and \$272.1 billion in 2014. From this, the average nominal compounded GDP growth rate (in United States dollars) is computed as 8.74% in the 15 years from the 2000–2014 inclusive.

²⁴ Footnote 21.

²⁵ The report states that this refers to the fraction of adults with accounts in regulated financial institutions, such as banks, in the case of the Philippines.

²⁶ BSP. 2015. *Financial Inclusion Initiatives*. Manila.



the basic sectors, fisherfolks had the highest poverty incidence at 41.4% in 2009 followed by farmers at 35.7%.

Sustainable and equitable economic growth allows the low-income sector to partake in the benefits and results. One of the perceived barriers toward this end is the poor's lack of or inadequate access to financial services, which has been mostly limited by geographic distance, high cost of services, inappropriate products, and stringent and tedious documentary requirements.

Recognizing these realities and in line with the vision and policy of the National Strategy for Microfinance, the Philippine Development Plan, 2010–2016 envisions a "...regionally responsive, development-oriented and inclusive financial system which provides for the evolving needs of its diverse public." In line with this, "...various financial sector reforms will be pursued to further deepen the financial system and enable it to contribute to sustainable and inclusive growth" (Philippine Development Plan, 2010–2016). This is to be addressed through the promotion of inclusive finance wherein everyone has access to all types of financial services, including deposit account services, credit services, remittances, and insurance services.

To ensure financial inclusion, the plan states that the government will pursue the following strategies in the finance sector:

- (i) establish a conducive and regulatory environment that balances financial inclusion objectives with financial stability goals;
- (ii) promote the use of alternative products and delivery of financial services, such as microinsurance, in underserved and unserved areas of the country;
- (iii) explore other facets of inclusive finance framework, such as agent banking and use of nonbank financial institutions as delivery channels;
- (iv) adopt a holistic approach to financial literacy and consumer education; and
- (v) encourage the continuing development of new loan products and other banking services aimed to address the special needs of the poor, women, and persons with disability.

Toward realizing the plan's strategies, the BSP recently undertook a number of important initiatives, including²⁷

- (i) Working closely with 12 other government agencies and the public, the National Strategy for Financial Inclusion was drafted and launched on 1 July 2015. The National Strategy for Financial Inclusion aims for national coordination in the design, implementation, and monitoring of financial inclusion policies and programs as well as coordination among public and private sector stakeholders for optimum development of financial inclusion.
- (ii) Development of the National Retail Payment System framework defining "high-level policies, standards, and governance principles covering retail payment operations and infrastructures. The goal is to create a safe, efficient, and reliable electronic retail payment system that is interconnected and interoperable. This promises increased efficiencies, greater opportunities for consumers and businesses, and increased access to financial services."

²⁷ Footnote 26.



- (iii) Launch, in 2015, of the Nationwide Baseline Survey on Financial Inclusion, a pioneering survey dedicated to collecting demand-side financial inclusion data from the potential users themselves. This will provide an accurate profile of financial inclusion by region.
- (iv) Formulating general policies and frameworks that further encourage financial service providers to expand to unserved and underserved markets.

In recognition of the BSP's work, the Economic Intelligence Unit's 2015 Global Microscope on Financial Inclusion in 2015 ranked the regulatory environment in the Philippines as third in the world and first in Asia in terms of its financial inclusion policies and objectives, prudential regulations, and supervision of the financial system.²⁸

Further progressing on financial inclusion, Republic Act 10693: An Act Strengthening Nongovernment Organizations Engaged in Microfinance Operations for the Poor was signed into law on 3 November 2015 by then President Benigno Aquino III. Aside from the basis by which the SEC will regulate MFI-NGOs, the law allows accredited microfinance MFI-NGOs to access government programs and projects for operational and capacity-building grants, low interest loans and guarantee funds, and preferential tax treatment on all microfinance services catering to the poor. Moreover, these institutions will now be able to facilitate technical assistance linkages between their micro-entrepreneur clients with government, donors, and other support organizations. Overall, it opens the avenues for MFI-NGOs to scale up their operations and create an impact in the communities where they operate.²⁹

Microinsurance Industry in the Philippines

Early Developments

More than 26 million Filipinos live below the poverty threshold. They are most vulnerable to risks such as illness, physical injury, accident, death, and loss of property. When these events happen, the gains resulting from continued access to savings and credit services are usually eroded. In most cases, the poor are not financially prepared to cope with the risk events since they have inadequate or, at worst, have no access to risk protection services. Thus, the need to provide for the future and unexpected needs of the poor was recognized.

As of 2014, the number of covered microinsurance clients reached a little over 30 million Filipinos served by 42 commercial insurance entities (18 life and 24 nonlife), two of which are cooperative insurance societies, and 22 MBAs, with a total of 162 Insurance Commission-approved microinsurance products.³⁰

In 2006, the Insurance Commission launched its initiative to promote microinsurance. It declared the month of January of every year as Microinsurance Month. To kick off the initiative, the Insurance Commission issued a groundbreaking circular, Insurance Memorandum Circular 9-2006, to define "microinsurance."

²⁸ The Economist Intelligence Unit. 2015. *Global Microscope 2015: The Enabling Environment for Financial Inclusion*. New York.

²⁹ Source: Microfinance Council of the Philippines.

³⁰ Source: Insurance Commission.



Under the circular, microinsurance means “an insurance business activity of providing specific insurance products that meet the needs of the disadvantaged for risk protection and relief against distress or misfortune.” The circular identified the features of a microinsurance policy as (i) the amount of premium computed on a daily basis does not exceed 10% of the current daily minimum wage rate for nonagricultural workers in Metro Manila, and (ii) the maximum amount of life insurance coverage is not more than 500 times the daily minimum wage rate for nonagricultural workers in Metro Manila, P165,000 (\$3,667) insurance coverage.

Also, it requires from a microinsurance policy contract the following: (i) easily understandable contract provisions; (ii) simple documentary requirements; and (iii) premium collection mechanism that is not onerous for the insured, preferably one that coincides with the cash flow of the insured.

The guaranty fund for new and existing MBAs wholly engaged in providing microinsurance was reduced from P125 million (\$2.78 million) to P5 million (\$111,111). This provision, however, applies only to a “microinsurance–MBA” defined as one that is wholly engaged in the business of providing microinsurance and its principal member–cliente numbers at least 5,000.³¹

The circular sets the parameters for the design of insurance products to suit the needs of the poor, with specific focus on affordability, accessibility, and simplicity. It also provides a regulatory space for microinsurance–MBAs and recognizes them as a vehicle for delivering microinsurance services.

Recent Government Policy Thrusts and Directions in Microinsurance

2010 National Strategy and Regulatory Framework on Microinsurance

Recognizing the huge market for risk protection among the low-income sector, the proliferation of informal insurance activities among those directly involved in providing financial services to the poor, and the inherent limitations of MBAs,³² the Department of Finance–National Credit Council (DOF–NCC),³³ in coordination with the Insurance Commission and with technical assistance from the Asian Development Bank (ADB)³⁴ and the German Agency for International Cooperation (GIZ),³⁵ formulated and developed the Regulatory Framework on Microinsurance and the National Strategy for Microinsurance in 2009. Both documents were launched and approved on 31 January 2010 by the following government stakeholders: DOF, Insurance Commission, BSP, the SEC, the Cooperative

³¹ A principal (or primary) member–client is the family member to whom the microinsurance cover is provided to and does not include his/her family members even if coverage is extended to them.

³² MBAs were allowed to provide only simple life insurance products to their members.

³³ As stated previously, the NCC under the DOF spearheaded the formulation of the National Strategy for Microfinance, which paved the way for the participation of the private sector in the provision of financial services to the low-income sector.

³⁴ The ADB–JFPR funded the Developing Microinsurance Project, which provided technical and funding assistance to the NCC–DOF and the Insurance Commission in developing and implementing an appropriate policy and regulatory environment for the development of the microinsurance industry in the Philippines. A second phase of the project will end in March 2017.

³⁵ The GIZ provided technical and funding assistance to the NCC and the Insurance Commission through the Microinsurance Innovations Program for Social Security (MIPSS). The project complemented the ADB–JFPR project on microinsurance.



Development Authority (CDA), the Department of Health, the National Anti-Poverty Commission, and the Philippine Health Insurance Corporation (PhilHealth).

The National Strategy for Microinsurance defines the objective, roles of various stakeholders, and key strategies to be pursued in enhancing access to insurance by the poor.³⁶ The following are the key policy strategies to achieve the objective:

- (i) increased participation of the private sector in the provision of microinsurance services;
- (ii) establishment of an appropriate policy and regulatory environment for the safe and sound provision of microinsurance by the private sector;
- (iii) mainstreaming of informal insurance, insurance-like, and other similar activities or schemes; and
- (iv) institutionalization of financial literacy (learning or education) that will highlight the importance of microinsurance, the applicable rules and regulations, the duties and responsibilities of the providers, and the rights of the insured.

The Regulatory Framework on Microinsurance, on the other hand, defines and outlines the necessary regulatory and policy measures that should be adopted and implemented by concerned regulatory authorities to facilitate the participation of the private sector in providing risk protection for the poor.³⁷ It also ensures that the rights and privileges of the insured poor are protected and promptly acted upon. Given a huge informal market for microinsurance, the framework also provides for a formalization path for informal providers.

Each of the four key regulatory authorities that approved and endorsed the framework—BSP, CDA, Insurance Commission, and SEC—has jurisdiction over entities that play a major role in promoting and ensuring the safe provision of microinsurance. The Insurance Commission supervises and regulates all licensed insurance providers, while the BSP supervises and regulates all banks. Both the Insurance Commission and the BSP are mandated to supervise and regulate the governance, financial management, and operational performance of entities under their jurisdiction. The CDA has jurisdiction over cooperatives and the SEC over MFI-NGOs. Currently, the CDA registers cooperatives and provides them with some oversight supervision (i.e., compliance to cooperative principles and provisions of the Cooperative Code),³⁸ while the SEC registers MFI-NGOs. The SEC only requires submission of annual financial statements from MFI-NGOs.

³⁶ The National Strategy for Microinsurance paper was a joint effort of the members of a technical working group (TWG) organized by the DOF and supported by GTZ through the MIPSS. The members of the TWG were DOF-NCC, Insurance Commission, Cooperative Development Authority (CDA), Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC), Department of Health, Philippine Health Insurance Corporation, National Anti-Poverty Commission (NAPC), Chamber of Mutual Benefit Association, Risk Management Solutions (RIMANSI), Coop Life Insurance and Mutual Benefit Services (CLIMBS), Cooperative Insurance System of the Philippines, Philippine Life Insurance Association (PLIA), Philippine Insurers and Reinsurers Association (PIRA), Association of Health Maintenance Organizations of the Philippines, GTZ, and ADB.

³⁷ The Regulatory Framework on Microinsurance was a joint effort of the members of a TWG organized by the DOF and supported by ADB-JFPR. The members of the TWG were the DOF-NCC, Insurance Commission, CDA, BSP, SEC, NAPC, Chamber of Mutual Benefit Association, Inc., RIMANSI, CLIMBS, CISP, PLIA, PIRA, Microfinance Council of the Philippines, GTZ, and ADB.

³⁸ In addition, the CDA recently set up a regulatory unit that is responsible for the supervision and regulation of cooperatives, especially those engaged in savings and credit activities.



The regulatory framework amended the definition of microinsurance provided for in Insurance Memorandum Circular 9–2006 to mean an activity of providing specific insurance, insurance-like, and other similar products and services that meet the needs of the low-income sector for risk protection and relief against distress, misfortune, and other contingencies. This should include all forms of insurance, insurance-like, and other similar activities as may be defined by concerned regulatory bodies, with the following features: (i) premiums, contributions, fees, or charges are collected or deducted prior to the occurrence of a contingency; and (ii) guaranteed benefits are provided upon occurrence of a contingency.

Following the definition of microinsurance as an insurance activity for the low-income sector, microinsurance was defined as a financial product or service that meets the risk protection needs of the poor where

- (i) the amount of premiums, contributions, fees, or charges computed on a daily basis does not exceed 5% of the current daily minimum wage rate for nonagricultural workers in Metro Manila; and
- (ii) the maximum sum of guaranteed benefits is not more than 500 times the daily minimum wage rate for nonagricultural workers in Metro Manila.³⁹

The 10% ceiling for microinsurance premium provided for in the circular was reduced to 5% after considering improved efficiencies in the insurance industry resulting from more cost-efficient technology. Also, with a higher number of poor people insured, the risks were more spread out, lowering the fixed cost per unit of microinsurance and reducing the actuarial risk loading required for uncertainty. Likewise, with more options for delivery channels anticipated in the future, the cost of insurance distribution was also expected to fall.

The maximum coverage was retained inasmuch as it was able to provide 16.5 months (500 days) of lost income resulting from any unforeseen event or contingency to the insured. This is deemed sufficient to augment the needs of the family of the insured.

2013 Amended Insurance Code

The Republic Act (RA) 10607 Amended Insurance Code was promulgated on 15 August 2013. The code recognizes microinsurance and adopted the brief regulatory framework definition “Microinsurance is a financial product or service that meets the risk protection needs of the poor.” However, the code increased the maximum premium/contribution limit to “7.5% of the current daily minimum wage rate for nonagricultural workers in Metro Manila” and the maximum sum of guaranteed benefits to a maximum of “1,000 times of the current daily minimum wage rate for nonagricultural workers in Metro Manila.” Aside from this, the code is flexible in that it authorizes the insurance commissioner to prescribe all the necessary requirements, rules, and regulations for providing microinsurance.

The amended code affects MBAs as follows:

- An MBA may commence operations with a minimum guarantee fund as low as P5 million but, thereafter, the fund level is subject to the commissioner’s discretion and may be required to increase to as high as the capital requirement of a domestic life insurance company. Currently, the commissioner requires a microinsurance–MBA to load its member contributions

³⁹ The modified definition of microinsurance is based on the previous definition provided for in Insurance Memorandum Circular 9–2006. The TWG on the formulation of the Regulatory Framework for Microinsurance reviewed and revised the circular definition to consider developments in the market for risk protection among the poor.



by 5%, which is to be used to build up its guarantee fund until it reaches at least 12.5% of the minimum capital requirement of a domestic life insurance company.⁴⁰

- Free and unassigned surplus must not exceed more than 20% of total liabilities; any excess of this amount must be returned to the members by way of dividends, enhancing members' equity value, or by providing benefits in kind and other relevant services. In addition, subject to the approval of the commissioner, an MBA may allocate a portion of this excess for capacity building, research and development, upgrading and improving operating systems and equipment, and continuing member education.

This latter provision addresses the concern of some older MBAs that had been accumulating large surpluses, raising concerns that this practice was creating large intergenerational inequities between members.

2015 Enhanced Microinsurance Regulatory Framework

Toward leveling the playing field for the various types of microinsurance providers and encouraging them to participate more widely in the market, another technical working group (TWG) sponsored by ADB⁴¹ was organized by DOF–NCC in coordination with the Insurance Commission and was tasked to develop the Enhanced Microinsurance Regulatory Framework.⁴² In supplementing the 2010 Regulatory Framework on Microinsurance, the vision of the enhanced framework is an improved regulatory environment enabling providers to broaden their scope of protection and deepen their outreach among the poor while maintaining viability, sustainability, and consumer protection.

The major strategies of the enhanced framework are as follows:

- (i) development of clear policies to guide the conduct of microinsurance agents, brokers, and distribution channels, and make sure that they clearly communicate consumer rights, privileges, and product information;
- (ii) development of guidelines on bundling products that are responsive and innovative to the needs of the poor; and
- (iii) clarification on how risks may be transferred among various types of risk-carriers and reinsurers to increase capacity of providers to offer more types and larger volumes of risk protection.

Adopted on 16 October 2015 as Circular Letter 2015-54, the enhanced framework includes the following:

- (i) To clarify confusion in the market, a clear description of the permitted activities and functions, as well as the limitations of microinsurance regular agents, general agents, and brokers. This includes a graphic illustration of the distinctions between and among them,

⁴⁰ The amended code requires all existing domestic life insurance companies to have a net worth of P550 million by end of 2016, P900 million by end of 2019, and P1.3 billion by 2022. New companies must have no less than P1 billion in capital and P100 million in surplus.

⁴¹ The funding was through project the Asian Development Fund – Japan Fund for Poverty Reduction (ADB–JFPR) Technical Assistance (TA) 8258: Capacity Building for Microinsurance, which provides technical assistance to the DOF–NCC and the Insurance Commission in developing microinsurance policy and regulation.

⁴² The TWG consisted of the DOF–NCC, SEC, Insurance Commission, BSP, CDA, RIMANSI Organization for Asia and the Pacific, CISP, CLIMBS Life and General Insurance Cooperative, PLIA, PIRA, National Reinsurance Corporation of the Philippines, MicroEnsure Philippines (Microensure), Cebuana Lhuillier Insurance Solutions (CLIS), Rural Bankers Association of the Philippines (RBAP), German Development Cooperation–Regulatory Framework Promotion of Pro-Poor Insurance Markets in Asia (GIZ–RFPI Asia), and ADB.



and their possible relationships with microinsurance providers, distribution channels, and microinsurance consumers.

- (ii) Enabling of microinsurance brokers to develop and register their own microinsurance products with the Insurance Commission (prior to this, only insurance companies and MBAs could register products).
- (iii) Provision for brokers, general agents, MBAs, and cooperative insurance societies to employ innovative and capacitated channels for distribution of microinsurance.
- (iv) Minimum contact information of all players involved in microinsurance provision to be communicated in all microinsurance contracts and coverage certificates.
- (v) A detailed listing of the types of risks that may be transferred between and among duly licensed MBAs, life insurance companies, nonlife insurance companies, and reinsurance companies.
- (vi) Clarification on what types of products may be bundled, as well as the roles and responsibilities of each insurer involved in providing the bundle.

2015 Agriculture Microinsurance Framework

In 2015, it was estimated that almost 41% of the total land area of the Philippines was devoted to agriculture on which about 31% of the country's labor force was dependent on for its livelihood. However, the PCIC's servicing penetration rate of the small farmers and fisherfolks sectors was estimated to be a mere 8% in 2013. Since these are the poorest sectors of the population and the hardest hit when natural disasters such as drought and typhoons hit, ADB⁴³ funded a TWG⁴⁴ through DOF–NCC in coordination with the Insurance Commission to formulate a framework with a vision to encourage development and promotion of simple, affordable, and accessible agricultural microinsurance (MicroAgri) products through efficient and effective partnership arrangements between the public and private sectors.

The major strategies of the agricultural framework are as follows:

- (i) development of clear policies to guide the design and development of traditional indemnity-based and parametric-based MicroAgri products,
- (ii) formulation of guidelines that will encourage the private sector to enter the MicroAgri market and make available new and better products, and
- (iii) ensure that the consumers are well informed of their rights and privileges when they purchase MicroAgri products.

⁴³ The TWG was funded by the ADB–JFPR TA 8528 project (see the footnote on this project in the previous section).

⁴⁴ The TWG consisted of the DOF–NCC, SEC, Insurance Commission, BSP, CDA, Department of Science and Technology – Philippine Atmospheric, Geophysical and Astronomical Services Administration (DOST–PAGASA), Climate Change Commission, Philippine Crop Insurance Corporation, RIMANSI Organization for Asia and the Pacific, CISP, CLIMBS Life and General Insurance Cooperative, PLIA, PIRA, National Reinsurance Corporation of the Philippines, MicroEnsure, CLIS, RBAP, GIZ–RFPI Asia, and ADB.



Adopted on 15 October 2015 as Circular 2015-53, the framework includes the following:

- (i) a clear definition of what indemnity-based and parametric-based MicroAgri products are;
- (ii) a description of the types of agricultural assets that may be covered, the risk events that may be insured against, and the eligibility of consumers that may purchase these products, including proof of insurable interest for enrollment and claims;
- (iii) clarification with respect to the types of products that may be developed by each type of provider and how products may be distributed; and
- (iv) for parametric-based products, specification of the parameters that may be used for constructing the loss formulae and triggers, data to be used for provision of such products, the documentation requirements for claiming, and the payout standards to be applied.

Notwithstanding the above, MicroAgri products must conform to the microinsurance frameworks, rules, and regulations discussed so far.

The framework states that the Insurance Commission will consider regulatory relief measures in case of catastrophic events such as typhoons (for example, relaxing the 10-day claims payment requirement). It also encourages ways in which the public and private sectors should collaborate efforts to develop the MicroAgri market.

2014 Alternative Dispute Resolution Framework for Microinsurance

The Alternative Dispute Resolution Framework for Microinsurance (ADReM) provides the guidelines and procedures in implementing Insurance Memorandum Circular 1-2010, Annex 1, I (G) (Regulations for the Provision of Microinsurance Products and Services) for addressing complaints and resolving disputes arising from microinsurance contracts.⁴⁵ It provides various modalities for dispute resolution that are low-cost, accessible, practical, effective, and timely.

Prior to this, resolution of insurance disputes had to be initially coursed through the three channels of the Insurance Commission: the Public Assistance and Information Division, the Claims Adjudication Division, and the Regulation Division. If not resolved, disputes had to be elevated to the judicial system where it underwent a long, expensive, and tedious process which, for the most part, is impractical and inaccessible to microinsurance consumers. With ADReM, there are now resolution mechanisms that are more accessible to conflicting parties without having to go through this legal process.⁴⁶

For the Insurance Commission, the framework will bring relief from having to deal with large volumes of microinsurance-related conflicts. Alternative dispute resolution mechanisms will decentralize dispute resolution capacities by deputizing fair and capable third-party mediators (outside of the Insurance Commission's three regional offices in Manila, Cebu, and Davao) who can then deal with the disputes locally.

⁴⁵ The framework is the main output of a TWG sponsored by GIZ and ADB-JFPR. The group was led by the DOF-NCC and further composed of PLIA, PIRA, RBAP, Chamber of Mutual Benefit Associations, RIMANSI Organization for Asia and the Pacific, Inc., Microfinance Council of the Philippines, CLIMBS Life and General Insurance Cooperative, Inc., CISP, Society of Independent Insurance Intermediaries of the Philippines (Triple I), Life Underwriters Association of the Philippines, and Microensure.

⁴⁶ Source: www.microinsurance.ph/index.php?id=adr-framework-approved



ADReM will also complement other consumer protection efforts of the Insurance Commission such as continuous conduct of financial literacy programs, the implementation of performance indicators and standards for microinsurance providers, ongoing efforts to terminate informal insurance activities, simplification of microinsurance policy contracts for better consumer understanding, and shortening the maximum processing time of microinsurance claims.⁴⁷

2015 Micro Pre-Need Regulatory Framework

On 9 October 2015, the Insurance Commission released Memorandum Circular 2015-51, which ordered the adoption and implementation of the Micro Pre-need Regulatory Framework.⁴⁸ The objectives of this framework are to create an enabling environment which opens the door for the pre-need industry to develop affordable and relevant micro pre-need products that are readily accessible to low-income Filipinos. At the same time, the framework aims to provide a mechanism that ensures the protection of planholder rights and privileges.

The pioneering framework defines “micro pre-need” products for the first time, describing them as a program providing pre-need contracts or plans for future education, life or memorial services, or pension for the poor with the principal characteristics of accessibility, affordability, and contract simplicity. The plans are, in essence, a savings vehicle to fund guaranteed delivery of future services or monetary benefits when they mature or prior to maturity in case of some predefined contingent events such as planholder death, depending on the design.

Much of the framework is analogous to the Microinsurance Regulatory Framework and the Microinsurance Enhanced Regulatory Framework. For example, micro pre-need installment payments (i.e., the regular payments) may not exceed 7.5% of the current daily minimum wage rate for nonagricultural workers in Metro Manila, while the value of guaranteed benefits must be fixed and not exceed 1,000 times this same wage rate. Contracts must be simple and easily understood while unambiguously describing the services, monetary considerations, and other benefits to be delivered in the future.

Pre-need products may be bundled with microinsurance, other micro pre-need products, or microfinance products. The lead provider must be a pre-need company who will assume the responsibility for issuing the contract, collecting the payments, and accepting claims documents.

Only pre-need companies may provide the products who, unlike in the insurance sector, may also sell the products directly to the market without requiring the business to be coursed through agents or brokers. Products may also be sold by sales counselors, pre-need general agents, and pre-need brokers. As with microinsurance, micro pre-need sales counselors need only undergo an approved training program; however, regular sales counselors are also allowed to sell micro pre-need products.

2016 Regulations for the Provision of Health Microinsurance Products and Services

On 15 October 2015, Circular Letter No. 2016-22, Regulations for the Provision of Health Microinsurance (MicroHealth) Products and Services, taking reference from the Health Microinsurance

⁴⁷ Footnote 46.

⁴⁸ The Micro Pre-Need Regulatory Framework was developed by the Insurance Commission in consultation with the Philippine Federation of Pre-Need Companies, Inc., the microfinance industry, and other sectors.



Framework, was released by the Insurance Commission. The objectives of the circular are to seek to promote inclusive health insurance for the Filipino population with main focus on the low-income and informal sectors, increased participation of the private sector, wider coverage and improved accessibility resulting from a broad range of innovative MicroHealth products, better product value, and improved consumer protection. The circular endorses life and nonlife insurance companies, cooperative insurance societies, MBAs, and HMOs as providers of MicroHealth products.

A broad rationale of the circular is support for the government's long-term objective of Universal Health Care for all Filipinos through the National Health Insurance Program (NHIP). NHIP was established by Republic Act 7875 (National Health Insurance Act of 1995) and enhanced by its various amendments. The latest amendment was Republic Act 10606 (National Health Insurance Act of 2013) and its implementing rules and regulations.

MicroHealth is defined in the circular as “an activity providing specific health insurance, health insurance-like, and other similar products and services that address the health needs of the general population, particularly the low income and the informal sectors.” It is expected to complement the government's NHIP by broadening coverage of eligible illnesses and accident-related injuries; increase access to health financing of drugs, medical supplies, transportation, etc.; enhance benefit packages; and generally reduce the insured's out-of-pocket health expenditures when hospitalized. Generally, MicroHealth must conform to the microinsurance definition in the Insurance Code, as amended (see section titled 2013 Amended Insurance Code).

The circular further provides what MicroHealth products and services are, and how they may be packaged and distributed:

- All products are guaranteed benefits upon the occurrence of contingent and unforeseen events;
- Coverage includes fully or partially curative inpatient or outpatient services; however, those health products that are mostly preventative and maintenance services (executive checkups, counseling, optical, dental, etc.) are not regarded as MicroHealth;
- MicroHealth may be offered as a stand-alone product, bundled with or as a “rider” to other approved microinsurance products or with preventative services, or it may be packaged as a complement or supplement to the government's NHIP;
- MicroHealth may be offered as a group or individual product distributed by licensed agents and brokers, third party administrators, medical institutions, suppliers, electronic platforms, through institutional accounts, group accounts, or via electronic platforms; and
- Each offering must bear the MicroHealth logo.

The circular also calls for the Insurance Commission and the Department of Health to develop additional underwriting guidelines and market conduct rules for MicroHealth distribution channels, health service providers, and claims payment schemes.

As mentioned, HMOs are one of the types of MicroHealth providers. On 12 November 2015, Executive Order No. 192 s. 2015 transferred the regulation and supervision of HMOs from the Department of Health to the Insurance Commission. Also, a Memorandum of Understanding for Health Microinsurance in the Philippines was signed between the Department of Health and the Insurance Commission on 25 April 2016. The memorandum of understanding encourages both agencies to cooperate and coordinate their respective functions to enable market participants to offer complementary and supplementary products and services to the public.



2016 Distribution Channels and Consumer Protection Framework

The Enhanced Microinsurance Framework permits duly licensed microinsurance general agents, brokers, cooperative insurance societies, and MBAs to contract the services of innovative channels for distributing microinsurance products. These channels do not have to be licensed; however, the abovementioned entities must closely supervise them, delegate only distribution tasks with the exception of selling and/or solicitation, and assume full responsibility for any misconduct that the channels may commit. A duly licensed representative of the channel contractor must be designated to the channel for selling and/or solicitation.

As of this writing, a TWG is developing a Microinsurance Distribution Channels Regulatory Framework that aims to supplement and expand existing regulations on distribution channels for microinsurance, micro pre-need, and health microinsurance products (collectively termed as micro risk protection products in the draft framework; for convenience the term is used synonymously with microinsurance throughout the remainder of this document).⁴⁹ More specifically, the framework will define acceptable distribution channels that may be contracted, describe the permissible functions and activities of distribution channels, lay out the responsibilities and market conduct of distribution channels and all parties involved, and prescribe measures to follow which will ensure that the rights of consumers are protected.

Regulations Facilitating the Safe Provision of Microinsurance

Following the approval of the national strategy and the various abovementioned frameworks, the Insurance Commission issued several circulars implementing some of the important provisions contained in the frameworks.

Table 2: Various Circulars on Microinsurance Issued by the Insurance Commission

Circular	Brief Description
Insurance Memorandum Circular 1–2010: Regulation of Microinsurance Products and Services	Contains the various rules and regulations for the provision of microinsurance products and services, the basic definition of a microinsurance product, the features of a microinsurance policy contract, and who are allowed to sell microinsurance products
Joint Memorandum Circular (JMC) 1–2010	Defines government policy on informal insurance activities, requiring all entities that are engaged or will engage in insurance activities to get a license from the Insurance Commission; provides various formalization options for those engaged in informal insurance activities; jointly issued by the Insurance Commission, Securities and Exchange Commission, and the Cooperative Development Authority
JMC 2–2010	Provides specific guidelines on how funds collected from informal insurance activities should be treated
JMC 3–2011	Indicates the deadline, which is 31 December 2011, for the formalization of informal insurance schemes

continued on next page

⁴⁹ The TWG is also sponsored by ADB–JFPR and is composed of the main industry stakeholders comprising other TWGs described above.



Table 2 continued

Circular	Brief Description
Circular 5–2011	Prescribes the use and adoption of the performance indicators and standards for microinsurance (SEGURO) by all licensed insurance entities engaged in microinsurance operations
Circular 6–2011	Provides the various requirements for the licensing of a microinsurance agent
Circular 5–2012	Provides the additional assets that may be considered admitted for insurance providers that have microinsurance operations
Circular 7–2012	Prescribes the submission of the 2011 Annual Statement by all licensed insurance entities using the revised form, which includes the required exhibits and schedules regarding information on the entities' microinsurance operations
Circular 15-2013 Procedures for Accreditation of Mediators–Conciliators in Alternative Dispute Resolution for Microinsurance (ADReM)	Procedures for Accreditation of Mediators–Conciliators in Alternative Dispute Resolution for Microinsurance (ADReM)
<p>Circular 16-2013 Guidelines for the Implementation of Alternative Dispute Resolution for Microinsurance (ADReM) Involving MBAs</p> <p>Circular 17-2013 Guidelines for the Implementation of Alternative Dispute Resolution for Microinsurance (ADReM) Involving Cooperative Insurance Societies</p> <p>Circular 18-2013 Guidelines for the Implementation of Alternative Dispute Resolution for Microinsurance (ADReM) Involving Commercial Insurance Companies</p>	Distinct ADReM guidelines and procedures designed for commercial insurance companies, for mutual benefit associations (MBAs), and for cooperative insurance societies
Circular 23-2016 Key Features of micro pre-need products	A brief set of guidelines for developing pre-need products by defining permissible product types and important product parameters such as duration of coverage, maximum gross contract price, installment payment frequency and duration of payment period, and so on.
Circular 30–2016 Bill of Rights of Policyholders	Enumerates the basic rights of the insured under the Amended Insurance Code and its pertinent rules and regulations.
Circular 31-2016 Formalization Template	Provides a template to be completed by all insurance companies and MBAs. This is composed of a listing each insurance product carried, the institutions each product is sold to or through, and the number of insured clients and/or members covered. The stated purpose is to gauge the effectiveness of prior circulars concerning formalization of informal insurance activities.

SEGURO is an acronym for the various categories of performance: solvency, efficiency, governance, understanding of the product by the client, risk-based capital, and outreach. In 2016, the term “risk management” was replaced by “rate of growth.”

Source: Insurance Commission.



The various frameworks and subsequent issuance of related circulars led to the regulation of design and provision of microinsurance products that suit the needs and circumstances of the low-income sector. Aside from defining specific parameters for providers, these also describe clear criteria for regulators to determine what microinsurance products are for purposes of licensing, regulation, and supervision, hence promoting regulatory transparency. The highlights of these regulations and how these facilitate microinsurance are discussed briefly.

Affordable microinsurance products. The definition and features of microinsurance products stipulated in the regulations provide parameters to providers in designing products that are affordable and accessible, and with contracts that are simple and easily understandable by the poor. The maximum limits for installments and premiums also give providers a benchmark in designing and creating innovative products that are affordable to the poor. Table 3 highlights the basic features of microinsurance products, and how these differ from the traditional products as provided for in the regulations.

Table 3: Risk Protection Products – Difference between Traditional and Micro

Contract Provisions	Traditional Products	Microinsurance Products
Maximum Premium	No limitation	7.5% of the current daily minimum wage rate in Metro Manila (P36.83 or \$0.82 daily premium)
Maximum Benefit	No limitation	Microinsurance: 1,000 times the daily minimum wage rate in Metro Manila (P491,000 or \$10,911) Micro Pre-need: same as for microinsurance Micro Health: same as for microinsurance
Policy Contract	Possibly contains one or more complex conditions	Simple and easy to understand
Frequency of Premium Collection	One-time payment, or periodic payments such as monthly, quarterly, semiannual, annual	One-time payment or daily, weekly, monthly, quarterly, semiannual, annual
Installment Period	Can be a one-time payment or periodic payments lasting for the duration of the product.	Same as traditional.
Coverage Term (duration of product)	Insurance and health: No limit in terms of the duration of the product. Some have a very brief term such as travel coverage lasting only for the duration of a journey, while others are very long term, such as whole life insurance which covers to the end of one's life. Pre-need: No specified minimum term. Memorial plans are typically lifetime due to nature of the benefit.	Same as traditional.

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Table 3 continued

Contract Provisions	Traditional Products	Microinsurance Products
Grace Period **	<p>Insurance: at least 31 days from premium due date</p> <p>Pre-need: minimum of 60 days from installment due date</p> <p>Health plans: depends on type of provider. If health is provided by an insurance company, grace period is at least 31 days from due date. If provided by a health maintenance organization (HMO), it is still to be determined since there are still no implementing rules and regulations (IRR) for EO No. 192 (transferring regulation of HMOs to the Insurance Commission).</p>	<p>Microinsurance and MicroHealth: 45 days from premium due date</p> <p>Micro Pre-need: minimum of 75 days from installment due date</p>
Contestability Period ***	<p>Insurance: Maximum of 2 years from date of issue or last reinstatement date of policy</p> <p>Pre-need: Same as for insurance if a plan contains insurance features, otherwise not applicable.</p> <p>Health plans: Same as for insurance if provided by insurance companies and to be determined by the IRR for EO No. 192 if provided by an HMO.</p>	<p>Insurance: Maximum of 1 year from date of issue or last reinstatement date of policy</p> <p>Pre-need and Health: same as traditional</p>
Suicide Clause	<p>Insurance: Maximum of 2 years from date of issue or last reinstatement date of policy</p> <p>Pre-need: None</p>	<p>Microinsurance: Maximum of 1 year from date of issue or last reinstatement date of policy</p> <p>Micro Pre-need: None</p>
Claims Settlement	<p>Insurance: Within 60 days after submission of complete documents</p> <p>Pre-need: For contingent plans, 30 days from date of submission of complete documents. For scheduled benefit plans, payment is immediately due on maturity, installment, or annuity due date (whichever is applicable).</p> <p>Health plans: Same as for insurance if provided by insurance companies and to be determined by the IRR for EO No. 192 if provided by an HMO.</p>	<p>Microinsurance: Within 10 working days after submission of complete documents</p> <p>Micro Pre-need: For contingent plans, 10 calendar days from date of submission of complete documents. For scheduled benefit plans, same as for traditional products.</p> <p>Micro Health: same as microinsurance</p>

* As of 2 June 2016, minimum wage in Metro Manila is P491 (conversion using P45 to \$1) and 20 working days per month. See www.nwpc.dole.gov.ph

** Grace period refers to the extended period given to the insured within which they are allowed to pay their premium payments. The policy stays in effect during the grace period.

*** Contestability period refers to the period within which the validity of the insurance contract or policy may be challenged.

Source: Various regulations and frameworks.



Shorter period for claims settlement. Unlike traditional insurance products wherein insurance providers are given a maximum of 60 days to settle insurance claims, microinsurance and MicroHealth regulations mandate and require providers to settle microinsurance claims within 10 working days after submission of complete requirements. In case of catastrophic events, the payment period for MicroAgri is extended to 20 working days. This is favorable to those belonging to the low-income sector since they need to receive the insurance benefits immediately to tide them over after such an event occurs.

Traditional pre-need companies are required to settle contingent benefit claims within 30 days of receiving complete documents; however, scheduled benefits are immediately payable on maturity, installment, or annuity due date, whichever is applicable. If payments are not made within 15 days of the due date, an interest charge at a rate of twice the legal interest rate is payable. For micro pre-need, the period for paying contingent benefit claims is shortened to 10 days (not 10 working days) while for scheduled benefits, the traditional payment policy applies.

Simple and easy-to-understand contracts. Considering that most of those who belong to the low-income sector seldom comprehend and understand complicated and legalistic documents, the Insurance Commission approved prototype microinsurance contracts for both life and nonlife products.⁵⁰ The simply worded and straightforward prototype microinsurance policy contracts, devoid of legal terms, were submitted to the Insurance Commission by the insurance industry associations. Any insurance company who would like to offer microinsurance product may use the prototype policy contract. The use of the approved prototype policy contract facilitates microinsurance product approval by the Insurance Commission since the prototype contract is preapproved, ensuring that the basic features of a microinsurance product are included. For MicroAgri, the microinsurance regulations apply as well, and while no specific prototype contracts have yet been developed, the nonlife versions could be adapted.

The micro pre-need framework also calls for simplified contracts, agreements, deeds, and plans that can be easily understood, while the microinsurance frameworks also apply to MicroHealth.

Simple documentary requirements. Many microinsurance clients do not have documents normally required by insurance providers from its clients (e.g., birth, marriage, and death certificates). Hence, the Insurance Commission, per Insurance Memorandum Circular 1–2010 and the adopted regulatory frameworks, allows the use of alternative documents such as barangay certificates.

Increased options for distribution. MBAs and cooperative insurance societies may sell directly to members, while commercial insurers must course their business through agents or brokers. Recognizing that most of those who belong to the low-income sector are located and residing in areas where insurance providers do not have any office or branch, the Insurance Commission allows not only individuals but also entities, particularly MFIs as well as other community-based organizations or associations, to be eligible as microinsurance agents or distribution channels. Unlike a traditional insurance agent, a microinsurance agent is not required to take the regular agent licensure examination but only has to undergo an approved microinsurance training program and to pass a qualifying

⁵⁰ The prototype policy contracts for both life and nonlife products were formulated and developed by a TWG comprising representatives from insurance providers, microfinance associations, the DOF, and the Insurance Commission. GIZ provided technical and funding assistance to the TWG under the MIPSS project.



examination after the training.⁵¹ The Insurance Commission prescribes the training requirement for a microinsurance agent and has accredited training institutions allowed to conduct the prescribed training program. Agents and brokers licensed to sell regular products may also sell microinsurance products.

Under the circular, rural and thrift banks engaged in the provision of microfinance services are qualified to be licensed as microinsurance agents. To make this possible, the BSP issued Circular 683, Series of 2010, allowing rural banks to apply for license for microinsurance agent, provided they follow certain requirements.

On the other hand, the enhanced regulatory framework provides that institutions like these and many other types may also act as distribution channels, accredited by either a general agent or a broker and performing only distribution activities delegated by these contractors. Distribution channels do not require a license and therefore may not sell microinsurance.

Allowing MFIs and other community-based organizations to become microinsurance agents and distribution channels facilitates the distribution of microinsurance. Clients are better able to appreciate microinsurance products since these are being sold and offered by agents with whom they already have business or working relationship. This also lowers the cost of distribution for insurance providers since they are able to capture large number of clientele by just dealing with one institution.

For micro pre-need, selling and distribution is allowed by providers, sales counselors, pre-need general agents, and pre-need brokers. Analogous to microinsurance, micro pre-need sales counselors need only to undergo an approved training program and pass the related qualifying examination. Regular sales counselors may also sell micro pre-need products.

MicroHealth may be distributed through licensed agents and brokers, third-party administrators, points-of-sale such as medical institutions and suppliers, institutions, groups such as community-based organizations, electronic platforms, and through other channels as allowed by the Insurance Commission. This permits almost any type of distribution channel to be developed as long as it is transparent to the public.

Tiered capitalization requirements. Under the Cooperative Code, capitalization of secondary cooperatives engaged in insurance business is only half of what is required of domestic commercial insurance companies. This is favorable to microinsurance considering that the two existing cooperative insurance societies in the country are engaged in microinsurance.

Insurance Memorandum Circular 9–2006 reduced the guaranty fund requirement for new and existing MBAs wholly engaged in microinsurance from P125 million to P5 million. However, they are required to increase their guaranty fund at a rate equivalent to 5% of gross contributions collected until the fund reaches a level of 12.5% of the capital requirement for commercial life insurance companies.

Under the amended insurance code, the issue of capitalization for all types of microinsurance providers is left to the insurance commissioner. Prior to promulgation of the amended insurance code, the regulatory framework provided that commercial life and nonlife providers wholly engaged in microinsurance need only 50% of the capital required for their respective counterpart insurance companies.

⁵¹ Microfinance institutions and other organizations interested to become microinsurance agents are required to identify a soliciting agent who will undertake the necessary training and qualifying examination. The microinsurance agent license is given to the institution.



The reduced capital requirement for these three categories of microinsurance providers encourages the establishment of new ones. As mentioned, several new micro-MBAs have begun operating in the past decade and, as of this writing, two recently established nonlife microinsurance companies were also operating. The increased competition brought on by additional providers results in more options and catalyzes innovations in the microinsurance market.

There has been no similar capitalizations relief for micro pre-need and MicroHealth providers.

Adoption of performance indicators and standards. To ensure stability of operations of insurance providers, viability of microinsurance operations, and safe and sound delivery of microinsurance products, the Insurance Commission issued a circular prescribing the adoption and implementation of a set of performance indicators and standards for microinsurance operations.⁵² The performance indicators are calculated within the categories of solvency, efficiency, governance, understanding of the product by the insured, rate of growth, and outreach. These are being revised under the current ADB-JFPR project.

The Insurance Commission uses the performance indicators as microinsurance industry benchmarks in assessing and evaluating the microinsurance operations of any licensed insurance entity. These indicators are used to immediately identify entities with specific concerns regarding their microinsurance operations and serve as an early-warning system. Management of microinsurance providers and distributors may also use these indicators and proposed standards in evaluating and assessing their own microinsurance operations.

The micro pre-need framework also calls for the development of a dedicated set of performance indicators for that industry which will also cover similar performance categories.

Expanded admitted assets. To increase regulatory space for insurance providers, additional assets of entities engaged in microinsurance operations were identified and are considered admitted by the Insurance Commission. This is expected to encourage insurance entities to provide microinsurance because this has some impact on their compliance to capital requirements. The following assets are considered admitted for entities engaged in microinsurance operations: (i) cash representing collected microinsurance premiums deposited with cooperatives and rural or thrift banks not exceeding P500,000 and whichever is lower of 25% of paid-in capital of the depository bank, or 25% of the total deposits of the microinsurance provider in the depository bank; and (ii) deposits in transit of microinsurance premiums collected within 31 calendar days from financial date.

Formalization of Informal Insurance Schemes

Llanto, Geron, and Almario (2009) estimated that about 1.2 million adults were covered by informal insurance schemes in 2009. It was also estimated that about half of the 22,000 operational cooperatives in 2007 were engaged in providing informal insurance services. Most of the informal insurance schemes, which are not licensed by the Insurance Commission, are provided by cooperatives or microfinance NGOs.⁵³

⁵² The set of performance standards was developed by the TWG on performance standards comprising representatives from both the government and the private sector. ADB's developing microinsurance project provided technical and funding assistance.

⁵³ Initially, a few banks also started to provide informal insurance products to their clients. However, the BSP, upon discovery during the annual supervision and examination of bank operations, prohibited these schemes.



In addition to insurance, a good number of cooperatives also operate informal health and pre-need memorial programs. Some of these health programs are well established and have been successful for many years, remaining informal even though there was the option of establishing a member-only HMO for a mere P100,000 prior to the transfer of HMO supervision to the Insurance Commission.

Since the schemes do not benefit from any actuarial study and have not undergone the review and approval process of the Insurance Commission, clients engaged in these are exposed to higher risks of insolvency. Because the Insurance Commission does not have jurisdiction over entities engaged in the informal activities, it coordinated with and solicited the support of other regulatory authorities that have jurisdiction over them.

As a result, the other regulatory authorities (BSP, SEC, and CDA) issued appropriate regulations requiring entities engaged in microinsurance to follow the key principles of insurance to ensure the safe and sound provision of microinsurance. Regulations issued by the BSP, SEC, and CDA make sure that those underwriting risks have the capacity and the capability to provide the guaranteed benefits when contingency occurs. Only licensed insurance providers are allowed to underwrite insurance risks and issue microinsurance policy contracts.

Recognizing the key role of rural banks in promoting microinsurance to their clients, the BSP issued Circular 683 in 2010 allowing rural banks to become microinsurance agents, provided they comply with the requirements of both the Insurance Commission and the BSP.

Similarly, the Insurance Commission, CDA, and SEC also issued a joint circular requiring all entities under their jurisdiction, which are engaged in unauthorized insurance activities, to terminate the operation of their informal insurance schemes within 1 year from 31 January 2010. This was later extended to 31 December 2011. The circular also identified several options for formalization.⁵⁴

Increasing Microinsurance Awareness

Because “insurance is sold rather than bought” it is imperative to increase public awareness on the importance of microinsurance for the low-income sector. Toward this end, the Insurance Commission, in collaboration with the DOF–NCC and with technical and financial support from ADB–JFPR and GIZ, developed a road map to microinsurance financial literacy. The road map⁵⁵ identifies the nine key stakeholders in microinsurance to whom advocacy and literacy activities should be directed.⁵⁶ The roles, responsibilities, as well as key messages directed toward each stakeholder, were identified in the road map.

To increase awareness and to solicit the needed support for the promotion and development of the microinsurance industry, microinsurance financial literacy road shows were conducted in 16 regions of the country from September 2011 to August 2012. The road shows comprised training for microinsurance advocates, public advocacy seminars, and press conferences. The training on

⁵⁴ Informal insurance providers may enter into formalization arrangements with authorized insurance providers either by partnering with licensed commercial insurance providers to provide and underwrite the microinsurance product or through a group or individual policy contract. They can also facilitate the membership of their clients through authorized cooperative insurance providers, mutual benefit associations, or health maintenance organizations.

⁵⁵ The road map was developed by the TWG on financial literacy on microinsurance comprising members from both the government and the private sector.

⁵⁶ The key stakeholders identified are legislators, regulators, national agencies, local government units, insurance providers, intermediaries, support institutions, donors, and clients.



microinsurance advocacy was conducted among participants coming from the key stakeholders; about 1,758 persons participated in the public advocacy seminars. To date, there are about 578 trained microinsurance advocates, a number of whom have already mounted and conducted their own advocacy activities in their localities.

Market Response to Date

As a result of the initiatives on microinsurance, including the issuance of various policy and regulatory measures, there is now greater awareness and interest in microinsurance in both the government and the private sector. In 2014, net premium written on microinsurance products amounted to approximately P210 million. Table 4 shows other key market responses on microinsurance (according to the Insurance Commission’s latest official figures).

Table 4: Key Market Responses

Before 2008	Market Development since 2008
Microinsurance products mostly credit life, except for mutual benefit association (MBA) microinsurance products	162 microinsurance products for commercial companies, at least 21 products for microinsurance MBAs as of 2014
6 licensed microinsurance MBAs	22 licensed microinsurance MBAs as of 2014
Very few commercial insurance companies with microinsurance	162 microinsurance products for 42 commercial companies (18 life, 24 nonlife), at least 21 products for microinsurance MBAs as of 2014 (although some microinsurance-MBAs have some additional products)
No microinsurance agent category	170 licensed as microinsurance agents (48 rural banks, 122 individuals) as of 2014
3.1 million individuals covered by microinsurance MBAs (about 600,000 certificates issued, given an average family of five members)	Approximately 30 million microinsurance policies and certificates issued in 2015. This includes dependents. This interpretation of this figure is discussed in section II.

* Microinsurance products include (i) life insurance such as term life and voluntary group life insurance; and (ii) nonlife insurance that adopts the nonlife prototype policy contract, which is a first-loss insurance (financial assistance) covering any of such identified perils as fire, flood, typhoon, accidental death, lightning, etc. Nonlife product is also referred to as *bahay*, *buhay*, *kabuhayan* product. Filipino word *bahay* means house or property; *buhay*, life; and *kabuhayan*, livelihood. There is also a prototype life insurance policy contract that may be adopted by life insurance companies engaged in microinsurance.

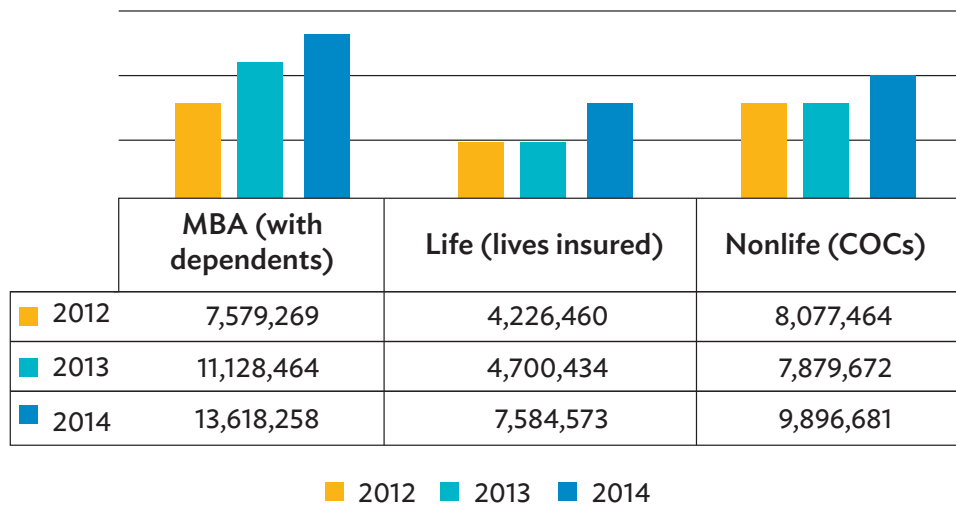
Sources: Insurance Commission and GIZ. 2016. *Case Study: The Philippine Approach to Inclusive Insurance Market Development*. (prepared by S. R. R. Bulos and D. O. Portula); Insurance Commission.

Table 4 and Figure 1 show that there has been substantial progress in the development of the country’s microinsurance industry. This is attributed largely to the policy and regulatory environment that encourages and supports the participation of the private sector in microinsurance. The issuance of specific regulations that set the parameters for a microinsurance product enabled a number of insurance providers to design insurance products that are affordable and accessible to the poor. Likewise, allowing the use of new types of delivery channels (e.g., microinsurance agents) to sell microinsurance products facilitated the wider distribution of microinsurance. Clients are better able to trust and appreciate microinsurance when it is sold through entities that already have existing relationships with them.

Moreover, the conduct of financial literacy activities involving all key stakeholders increased awareness and interest not only among clients but also among insurance providers, enabling them to appreciate the insurance business potential from the low-income sector. Likewise, the issuance of clear policy guidelines on the termination of informal insurance activities prompted a number of cooperatives and



Figure 1: Indicators of Growth in the Microfinance Industry, 2012–2014



COC = Certificate of Cover (single or family), MBA = Mutual Benefit Association
Source: Insurance Commission and GLZ case study.

NGOs to adopt some of the formalization options provided in the circular, hence increasing the number of potential clients for microinsurance.

While there have been obvious gains within a relatively short period, the huge market for microinsurance still calls for the participation of more providers. Likewise, there is still a need to increase awareness on the importance and benefits of microinsurance among the prospective clients. Local government units should also be encouraged to provide support in promoting microinsurance among its constituents especially as risks resulting from natural calamities are becoming more frequent.

Lessons Learned from ADB Support Projects (Asian Development Bank–Japan Fund for Poverty Reduction Grant 9118 and Technical Assistance 8258)

ADB support projects. In 2008, ADB, with funding support from the JFPR, provided a \$1 million grant to the Government of the Philippines to develop the microinsurance industry through the Developing Microinsurance Project (ADB–JFPR Grant 9118).⁵⁷ The project aimed to support the sound development of microinsurance, a microfinance service to protect the poor from unforeseen calamities, and to reduce severe poverty incidence. It was executed by the DOF–NCC with the Insurance Commission as the implementing agency. The project was directed toward (i) helping the government formulate and adopt suitable microinsurance regulations by reviewing the current policies and regulations and by improving

⁵⁷ By strengthening the capacity of the Philippines' microinsurance sector, that project complemented ADB support for the Microfinance Development Program (a \$150 million program loan) and its associated grant assistance (ADB–JFPR 9088: Developing Financial Cooperatives Project). The program implemented the following strategic reforms: (i) enhancing enabling policy and regulatory environment, and removing regulatory impediments and policy distortions; (ii) building viable MFIs; (iii) strengthening regulatory and supervisory capacities of oversight regulatory authorities; and (iv) increasing financial literacy and consumer protection.



the current insurance regulatory framework to make it more conducive to microinsurance development, (ii) enhancing capacities of government regulators and microinsurance providers through training and mentoring, and (iii) increasing access by the poor to a range of microinsurance services through financial literacy activities.

To further expand the microinsurance market, it was deemed necessary to equalize regulatory spaces for the various types of microinsurance providers, improve capacity to develop more products, and develop a more efficient distribution system. This led to the second \$1 million grant from the JFPR, through ADB, for a project with duration from March 2014 to March 2017 (TA-8258 PHI: Capacity Building for Microinsurance) which was executed and implemented by the same government agencies. Additional aims of this project are an established consumer protection scheme, enhanced financial literacy campaign, and maintained capacity of coordinating efforts among stakeholders.

The microinsurance industry in the Philippines has developed significantly over the last 8 years. Having provided assistance from October 2008 to December 2016, the projects were instrumental in facilitating the development of the industry.

The lessons learned during implementation of these two projects are as follows:

- (a) *Establishment of an appropriate policy and regulatory environment is important and necessary for the development of the microinsurance industry.* Interventions for the establishment of an enabling policy and regulatory environment have greater impact in providing access to affordable and appropriate microinsurance products and services to a greater number on a sustainable basis. An enabling policy and regulatory environment encourages the participation of the private sector that has the necessary expertise and capacity to provide the microinsurance products and services on a sustainable basis. This type of assistance results in greater returns per unit of scarce donor resources. Project milestones show that donor assistance is sustainable only if market-based policies are adopted and the private sector providers are enjoined in the delivery of microinsurance products and services.
- (b) *Government should own and champion the reform measures.* Project experience shows it is important to ensure that concerned government agencies (e.g., DOF-NCC, the Insurance Commission, and others) are convinced of and own the policy and regulatory reform agenda. It is important to have key officials within the concerned government agencies who support and champion the reform agenda. With support from government technical officers, pushing for necessary reforms has been greatly facilitated. Likewise, having an advocate in government signals sustainability of reforms, which is important when encouraging private sector participation. Project consultants and staff should only provide the necessary technical support to the concerned government agencies and partners.
- (c) *Technical working groups with participation from both the government and the private sector play a very important role in the reform process.* During project implementation, TWGs were created and used as venues in discussing important policy and regulatory issues that need to be addressed for the development of the microinsurance industry.⁵⁸ These TWGs comprised

⁵⁸ The following TWGs were created during project implementation to formulate and develop: (i) Regulatory Framework for Microinsurance, (ii) Performance Standards for Microinsurance, (iii) Road Map to Financial Literacy in Microinsurance, (iv) Materials and Training Modules on Microinsurance Advocacy, (v) Enhanced Regulatory Framework for Microinsurance, (vi) Agriculture Microinsurance Framework, (vii) Risk-Based Capital for Microinsurance, (viii) Enhanced Performance Indicators and Standards for Microinsurance, and (ix) Microinsurance Distribution Channels Regulatory Framework.



representatives from government policy and regulatory agencies, insurance industry associations, organization of MFIs, and other concerned stakeholders. Discussions and agreements reached during the TWG meetings were used as basis for the issuance of relevant policy and regulatory reform measures. Being part of discussions during policy formulation, the private sector's acceptance and ownership of the policy and regulatory reform measures from the outset resulted in smooth implementation of the reforms.

Project experience showed donor technical assistance has far-reaching impact when the support of stakeholders of a specific reform measure is solicited during formulation stage. This makes them effective owners and advocates of the reforms, hence facilitating institutionalization and sustainability. The process employed in TWG meetings is considered an example of a public-private sector partnership in the formulation of policy and regulatory reform measures.

- (d) *Regulations should facilitate and follow market development.* Apart from providing savings and credit services, MFIs realized the need to assist their clients in accessing financial products that would help them manage risks. Thus, even before policies and rules and regulations for microinsurance were formulated and issued, a number of MFIs were already providing insurance products to their clients. Some partnered with commercial insurance companies, while a relatively bigger number self-insured their clients and members. Recognizing this and the risks associated with self-insurance, the Insurance Commission responded to the market by formulating rules and regulations that define, facilitate, and promote the development of the microinsurance industry—the provision of insurance products to the low-income sector.
- (e) *Education and awareness is key to sustained interest and buy-in.* Most of those in the low-income sector lack an understanding of insurance or have a negative perception of it. A number of them are not confident that they will receive the promised benefit of insurance. In view of this, the need for education and awareness was given importance.

Education and awareness, however, should be focused not only on clients. As has been learned in these projects, microinsurance is new territory for insurance providers as well. A few years ago, most of the providers were not familiar with the low-income sectors and therefore did not consider them as a potential market. Hence, insurance products were mostly designed for the middle class and the higher-income groups, and then scaled down to make them affordable for the low-income markets. This approach does not work well and showed that the providers should also have a shift in their own business paradigms. To do this, education and awareness of the peculiar characteristics of the low-income market must also be provided to insurance providers to help them realize that, for products to succeed, they must be designed to fit the needs of the low-income sector.

Aside from providers and clients, experience also showed that other stakeholders, such as intermediaries, policy makers, legislators, regulators, and support and donor institutions, should also be made aware of the peculiar characteristics of the microinsurance market so that appropriate policies, rules, and regulations, as well as needed assistance, can be designed and implemented to support market development.

- (f) *Active role of government in project implementation facilitates donor coordination.* Donors provide development assistance that aids the country in shaping its own policy and development program landscape. The donor country's strategic and global interests dictate its development agenda that sometimes conflict with the interest of other donors.



While there were two donors providing technical assistance to the microinsurance sector in the Philippines, there were no overlaps or conflicting activities that could have resulted in waste of scarce donor resources. With just one steering committee for the two donor-funded projects, coordination was simplified and easily facilitated. Also, having government agencies that were seriously involved in project implementation prevented undue conflicts between donor agencies that usually result in delays in project implementation. Project activities were also easily synchronized, resulting in greater appreciation from the private sector partners.

Other Donor Assistance on Microinsurance

Aside from ADB and JFPR, other donors also provided technical or grant assistance in microinsurance to various institutions.

German Agency for International Cooperation. The GIZ implemented the Microinsurance Innovations Program for Social Security (MIPSS) from 2009 to 2012. It aimed to provide risk protection for the low-income sector in the Philippines by (i) improving the microinsurance framework; and (ii) building the capacity of insurance providers and delivery channels in microinsurance product development, financial literacy for microinsurance, and reinsurance. Like the two ADB–JFPR projects, the MIPSS was executed by the DOF–NCC and implemented by the Insurance Commission. A joint steering committee provided direction to GIZ and the initial ADB–JFPR project so that the two projects complemented each other in terms of technical assistance activities that helped the government to establish the appropriate policy and regulatory environment for microinsurance.

The program used a diversified implementing structure and networks with both global and local actors. It also had a public–private partnership with Munich Re and with Coop Life Insurance and Mutual Benefit Services in developing and implementing a natural catastrophic insurance product (also called a weather-protect product). MIPSS also partnered with another GIZ and European Union-funded project, the Enhancement of Food Security Project in the Visayas, wherein GIZ, the Department of Agriculture, and the PCIC developed and pilot-tested the area-based yield index insurance in three national irrigation systems for the wet cropping season of June–November 2011.

In 2012, GIZ partnered with the Swiss Development Corporation, the International Rice Research Institute, Allianz, and the Sarmap in implementing the remote-sensing-based information and insurance for crops in emerging economies. The project used remote-sensing technology to enhance area-yield determination and for other agriculture insurance solutions (more on this in section II).

GIZ is now executing the Regulatory Framework Promotion of Pro-Poor Insurance Markets in Asia program, which aims to improve access to insurance in Asian countries by focusing on building capacities of insurance regulators and assisting with development of innovative insurance products for the low-income sector (more on this in section II).⁵⁹ The program began in 2013 and is ongoing.

United States Agency for International Development. The United States Agency for International Development provided technical assistance to the Rural Bankers Association of the Philippines (RBAP) through the Microenterprise Access to Banking Services Project. The project provided technical assistance designed to assist partner rural banks in providing micro-entrepreneurs, small farmers, and

⁵⁹ Regulatory Framework Promotion of Pro-poor Insurance Markets. 2016. www.inclusiveinsuranceasia.com/



low-income households access to financial services. It provided training and technical assistance to partner rural banks in developing new and innovative microfinance products and services, including microinsurance.

In partnership with the Rural Bankers Research and Development Foundation and with the issuance of relevant circulars allowing rural banks to become licensed microinsurance agents, the project provided technical assistance to rural banks applying for a microinsurance agent license.

International Labour Organization–Microinsurance Innovation Facility (now Impact Insurance Facility). The RBAP got a grant from the International Labour Organization–Microinsurance Innovation Facility to assist rural banks to become effective microinsurance delivery channels. Under this project, rural banks were given capacity-building assistance to meet the various requirements for a microinsurance agent.

As of October 2016, the Rural Bankers Research and Development Foundation microinsurance initiative had already trained a total of 227 rural banks and 549 staff and officers in the 2-day basic microinsurance training course. Fifty-one rural banks have already been issued microinsurance agent licenses by the Insurance Commission covering around 2.2 million individuals by end of December 2015. The RBAP continues to provide assistance to rural banks interested to engage in microinsurance beyond the life of the project which ended in March 2013.⁶⁰

World Bank First Initiative Project. The World Bank First Initiative Project provided technical assistance to the Insurance Commission in enhancing its financial reporting framework using information and communication technology as a tool for measuring and monitoring the performance of the microinsurance sector. Electronic submission of data and other reports by insurance providers helped build and improve the capacity of the Insurance Commission in generating regular reports and statistics for publication. Information gathered helped both the insurers and the regulator assess the performance of their individual companies in relation to the whole industry, especially in microinsurance.

⁶⁰ Source: Rural Bankers Association of the Philippines.



Toward Accelerating Development of the Microinsurance Market

The microinsurance industry has progressed well since 2006. The policy and regulatory environment for the development of the microinsurance industry has been established. There have also been significant increases in awareness and interest among key stakeholders. Industry data consolidated by the Insurance Commission indicated approximately 30 million Filipinos (including their dependents) had received some form of formal risk protection coverage both in 2014 and 2015.⁶¹ However, there is still much room for growth. For one thing, the figures are likely not fully adjusted for the following: (i) many of those covered had only short-term duration policies (less than a year), making it possible for one insured to be counted multiple times within a year, while (ii) others have multiple covers, with each cover being counted as a separate insured. Considering this, the actual proportion of Filipinos representing the microinsurance market being reached is just a fraction of what this figure seems to indicate. Moreover, most of those with some form of microinsurance cover are exposed to several other perilous and lifestyle risks for which they are not yet protected.

There were an estimated 26.5 million low-income Filipinos living below the poverty line based on 2015 statistics. Since the upper bounds of premium and coverage limits in the microinsurance definition are quite high, the target market for microinsurance is significantly greater than the population segment living below the poverty line.

To ensure further massification (i.e., growth in mass microinsurance market), it is necessary to sustain the interest of providers and distributors in these markets (to increase supply and access) and build trust and confidence in microinsurance products among consumers (to increase demand). To accomplish these, some challenges and issues need to be deliberated, some of which were already identified in the 2011 version of this document. The following is a description of the main issues and the progress made since 2011.

Capacity of the Insurance Commission and Challenges in Regulating and Supervising the Market

For microinsurance to be sustainable, the regulator should be able to adequately protect the interests of insureds (microinsurance consumers who may be clients, members, or pre-need planholders, whatever the case may be) while ensuring the growth and stability of the industry. Rules and regulations, as well

⁶¹ Quarterly industry submissions showed approximately 25 million policies and/or certificates were bought in January–September 2016.



as procedures and systems for evaluating products, providers, and intermediaries, should be able to maintain a balance between facilitating access to microinsurance and consumer protection. In this regard, the capacity of the Insurance Commission needs to be enhanced with focus on the following regulatory challenges:

- (a) *Effectiveness and soundness of innovative delivery channels.* Affordability of payments (premiums, contributions, installments) and accessibility to servicing are two of the key challenges that determine successful uptake of microinsurance products. To address these, it is important that the cost of administration and distribution is kept to a minimum without sacrificing the timely settlement of claims and services. Maintaining low costs of administration, distribution, and service delivery are necessary to offer affordable and accessible products that fit the needs and peculiarities of the low-income market. On the part of the insureds, it is also important that transaction costs are kept to a minimum. Accessibility to microinsurance services is facilitated by the prospective consumer's familiarity with the distributor and by innovative and nontraditional delivery channels. The use of institutions, associations, service providers, and points of sale in proximity to the insureds play an important role in expanding outreach.

To ensure that these distribution channels are facilitating trust in the insurance, pre-need, and health systems, the Insurance Commission needs appropriate rules and guidelines. Toward this, as mentioned in an earlier section, the second ADB–JFPR project sponsored a TWG that is developing a distribution channels framework. The framework will permit channel contractors to delegate certain distribution tasks (aside from solicitation or selling) to innovative channels that will require accreditation but not licensing (Figure 2).⁶² One major unresolved issue concerns whether channels would need to be accredited or only registered. The conservative approach would be for the Insurance Commission to periodically accredit each individual channel outlet before it can operate. This option may be safer for the consumer. However, most industry representatives expect this to create a bottleneck instead of facilitating the rapid development of channels, and propose instead that the responsibility should be passed on to the channel contractors, making them wholly responsible for the performance and conduct of their channels. The industry argues that the Insurance Commission lacks the required capacity to undertake the colossal task of accrediting and monitoring of thousands of potential channel outlets each year, and therefore it should limit itself to licensing the channel contractors and random spot-checking of channel outlets being utilized.

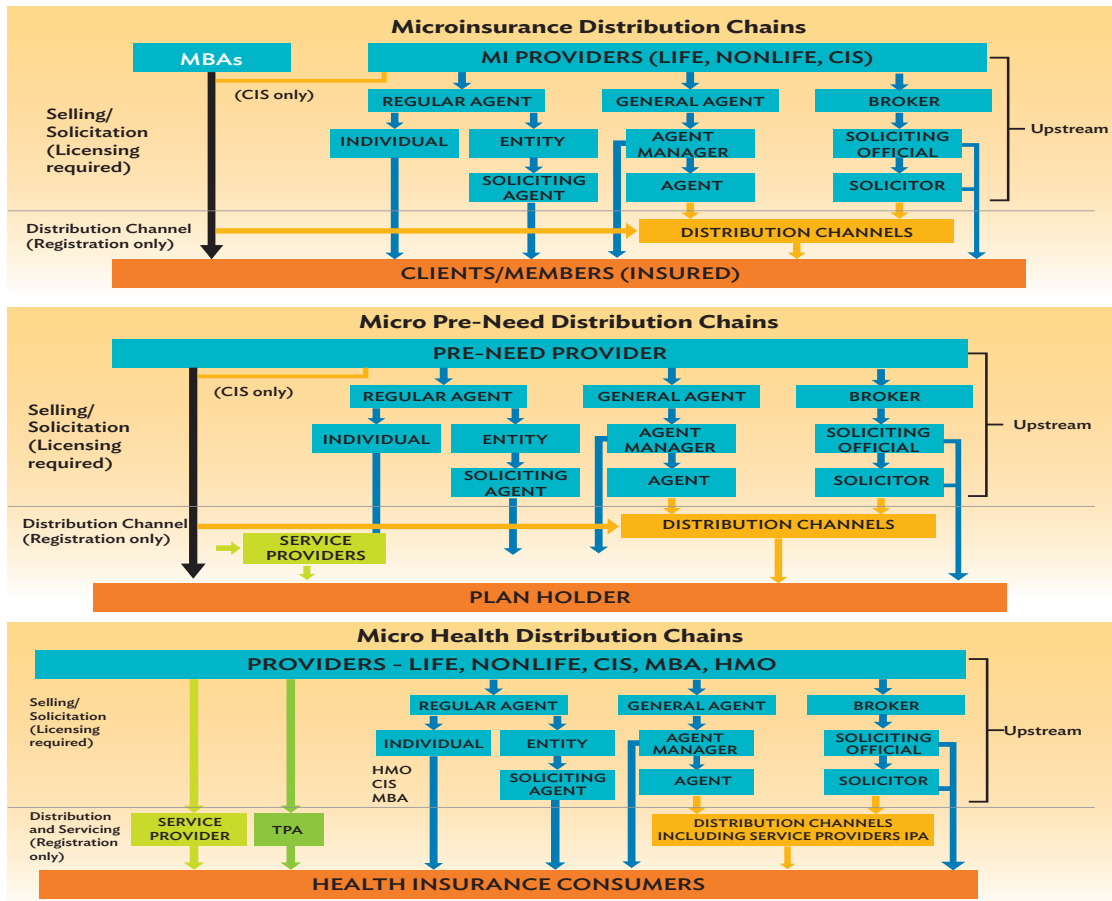
- (b) *Consumer protection.* Risk protection is a business of trust. To build and enhance trust between the provider and the consumer, the Insurance Commission allows the use of delivery channels that are already familiar with the low-income market and vice versa (e.g., use of MFIs and community-based organizations as microinsurance agents) to distribute microinsurance.

As new delivery channels are identified and as existing delivery channels are expanded for greater reach, enhanced efficiencies, and lower transaction costs, there is a stronger need for **rules and regulations related to market conduct** that protect low-income consumers in terms of policies, claims, and consumer recourse. A paper by the Consultative Group to Assist

⁶² Source: Draft Distribution Channels Framework.



Figure 2: Distribution Chains of Micro Risk Protection Products



CIS = cooperative insurance system, HMO = health maintenance organization, MBA = mutual benefit association, MI = microinsurance, TPA = third-party administrator.

Source: Insurance Commission.

the Poorest on Issues in Regulation and Supervision of Microinsurance (2007) identified at least two forms of abuse to which the low-income market is vulnerable: (i) agents or sales persons may provide misinformation or mislead low-income clients, while displaying aggressive sales practices; and (ii) low-income persons are often forced to purchase insurance when borrowing, or they are not informed of other options. This also highlights the need to create awareness of consumer rights among microinsurance clients.

In addition, appropriate codes of conduct among microinsurance providers, reinsurers, intermediaries, and other players in the delivery chain are needed to ensure transparency. These codes should be developed in coordination with industry associations and would guide construction of the various types of service agreements that are made between various actors in the delivery chain. To an extent, the recent frameworks and related regulations, as well as the pending distribution channels framework, address market conduct.



The framework for **alternative dispute resolution** in microinsurance (ADReM) developed by GIZ in 2013 provides an alternative mechanism for addressing complaints and resolving disputes. It identifies various modalities for dispute resolution that are low-cost, accessible, practical, efficient, and transparent. Full framework implementation, including issuance of relevant circulars, will help address disputes arising between consumers and market players (providers, service providers, distributors, etc.) in the delivery of microinsurance, micro pre-need, and MicroHealth.⁶³

To date, there has been little utilization of the ADReM mechanism, mostly due to one or more of the following:

- Providers say that the amounts involved in disputes are so small that they can readily be settled without their customers having to file a complaint.
- Microinsurance products are so simple that it is rare for disputes to arise.
- To date, there are no accredited mediators outside of Metro Manila so if disputes were to be filed elsewhere there would be no mediators to resolve them.
- The P500 fee to file a complaint is inhibitory for many low-income consumers while, on the other hand, the fee is too small to motivate mediators and cover their travel expenses.

There may also be very low awareness of ADReM in the market. Furthermore, perhaps by merely having the ADReM in place, it has deterring effect on market players who opt to swiftly settle disputes rather than risk reputational damage that would result if grievances were elevated to the ADReM level.

For advancing **awareness of consumers' rights**, the Insurance Commission issued Circular Letter 2016-30 named Bill of Rights of Policyholders. The bill explicitly enumerates the basic rights of the insured under the Amended Insurance Code and its related rules and regulations, and orders all insurance providers and intermediaries to observe these rights or face sanctions. The draft distribution channels framework will require all distribution channels to prominently display the bill of rights on their physical premises, while website and mobile phone channels must provide a link or web address to the bill. Analogous circulars, which refer specifically to the laws and regulations that govern the pre-need and HMO industries, are needed.

- (c) *Distribution through technology-based platforms.* As microinsurance moves toward greater outreach and massification, the importance of enhanced efficiencies (such as lower transactions cost) is recognized. The availability and use of technology and technology-based solutions (e.g., mobile phones, chip cards, and online sales portals, etc.) to bring down costs, improve product options, expand servicing, etc. provide great potential for increasing outreach and increasing depth of coverage. To encourage the use of technology-based platforms that facilitate growth and ensure protection of consumers requires regulator and policy makers to provide an enabling environment.

The Insurance Commission made great progress on this when it issued Circular Letter No. 2014-47 Guidelines on Electronic Commerce of Insurance Products on 21 November 2014. This regulation governs the sale of insurance products via the internet. It does not, however,

⁶³ The Micro Pre-Need Regulatory Framework and the Health Microinsurance Framework both call for dispute resolution utilizing ADReM.



cover distribution using mobile phone technology. The regulation references the Amended Insurance Code, which permits insurance to be sold online and insurance policies to be issued in electronic form, as well as the applicable provisions of Republic Act No. 8792, known as the “Electronic Commerce Act of 2000.” The main focus is on guiding insurance providers and intermediaries on designing their online distribution portals and electronic distribution processes in a manner that is transparent to the consumer and to ensure their rights are protected, since most of them are not familiar with this market arena. However, since this regulation deals only with insurance, there is a need to develop supplementary regulations that adapt it to the micro market and to other types of risk protection products such as pre-need. Moreover, according to the Insurance Commission, since distribution using the internet is an emerging industry, some provisions of the regulation are already becoming outdated.

Unlike in Bangladesh, Ghana, Kenya, and some other countries, microinsurance distribution utilizing mobile phone technology has not taken off so far in the Philippines. According to microinsurance providers, the main reason for this is the inability to prepare and sell a convincing business case to mobile phone companies who continue to see more attractive opportunities in other sectors.

- (d) *Risk-based supervision.* In recent years, supervision of financial institutions has evolved from compliance-based to risk-based in many countries. Under a risk-based supervision framework, supervisors review the manner in which insurers identify, manage, and control risks. Interventions and supervisory findings are based on the assessment and evaluation of risks faced by an insurer. With this approach, supervisors are able to allocate resources to insurers with the greatest risk and in areas within individual insurers that are high risk.

Adoption of a risk-based approach to supervision would support the financial inclusion principle of proportionality wherein the regulations and supervisory interventions given are proportional to the risks involved. Microinsurance providers would be encouraged to innovate and respond to market demands. This is particularly important for microinsurance inasmuch as the peculiarities of the low-income market call for innovations in the way providers design and distribute products and services.

At present, the Insurance Commission is still using the compliance-based approach to supervision. For accelerating growth of the microinsurance industry, it is important for the Insurance Commission to adopt and implement risk-based supervision. This will require some additional capacities. One of these would be a revamping of and regular use of an early warning system (EWS), which is an important tool used to quickly rank companies in the various industries in terms of intervention priority. EWS is composed of a set of performance indicators mostly calculated from the primary data of periodic statements submitted by these companies. It should be calculated separately for life companies, nonlife companies, MBAs, pre-need companies, and HMOs, and can also be expanded to intermediary groupings such as brokers. The indicators measure the critical parameters of each industry, such as growth rate, capital ratios, expense ratios, and a number of other parameters. These are assigned weights, and an overall score for each company is the sum of a weighted average of its indicators. Companies are then sorted based on their overall scores. The sorted list may be regarded as a proxy ranking of the companies in terms of regulatory audit priority.⁶⁴ As such, EWS is an important aspect of risk-

⁶⁴ It does not mean that any of the companies are necessarily experiencing difficulty or violating any prudential requirements—rather, it should be understood that companies at the top of the list have a higher potential for developing issues that would require regulatory intervention.



based supervision since it helps to focus the regulator on companies with the greatest potential for developing problems within each industry.

To quickly generate an EWS ranking requires a standard template for data submission and a tool (application) to calculate the EWS using the data in the templates.⁶⁵ Since the reporting requirements change quite frequently for an industry, the Insurance Commission must have the capacity to modify both the reporting templates and the EWS tool on an ongoing basis. This calls for the Insurance Commission's Information Department to develop stronger technical capacities that include computer programming.

Another closely related and very important capacity is for Insurance Commission examiners to better understand and use a set of **key performance indicators (KPIs)** such as the SEGUROS that were developed for both life and nonlife microinsurance in 2011 and are currently being revised under the ADB–JFPR project. As the term implies, key indicators point toward performance of the important areas within a microinsurance program. Aside from being a regulatory requirement, they can also be an important management tool for microinsurance providers. When graphed over time, the trends in indicator values tell an underlying story about a microinsurance program or company, especially when viewed in combination, and may themselves be regarded as an EWS of developing issues. Some of the indicators used for the SEGUROS are different from those used in the EWS and are thus another way for Insurance Commission examiners to ferret out issues requiring regulator intervention. Interpreting the meaning of these KPI trends requires training, an understanding of the industry, and experience.

Aside from training of Insurance Commission examiners, there is a need to develop KPIs for the micro pre-need and MicroHealth industries. In addition, the use of KPIs should be extended to the non-micro industries. The market should also be trained on KPI interpretation and their usefulness as a management tool. Finally, the KPIs should be published (masking company identities) so that industry players can view their position within the industry and give management of these companies a target for improving performance.

An important aspect of risk-based supervision is the calculation of **risk-based capital (RBC)**. RBC, which has been used by the life and nonlife companies since 2006, is currently being upgraded by NMG Financial Consulting Services (under ADB TA Grant 8608) to a more sophisticated calculation and alignment to those of other regional jurisdictions. The scope of RBC revision, however, does not include RBC for MBAs, and the Insurance Commission will have to update it soon for MBAs as well. Moreover, there is still no equivalent RBC calculation for pre-need and HMOs. These are important areas that the Insurance Commission needs to work on. And, the calculation of RBC should be integrated into the periodic reporting templates for each of these industries.

Aside from these three general areas, several other capacities are needed for risk-based supervision. One of these, according to the Insurance Commission, is for examiners to develop a deeper understanding of the **corporate governance** reports returned by insurers and the ability to read well beyond the surface of these reports. As with the KPIs, there may be underlying issues that an experienced examiner with proper training should be able to spot from some companies' reports. This ability may be further enhanced if some examiners

⁶⁵ Under the World Bank First Initiative project, a template for the life insurance providers' annual statement and an EWS tool were developed. These are, however, currently not being utilized by the Insurance Commission.



“specialized” on corporate governance. There could be other areas of specialization as well and a team approach used for company audits.

The skills needed for risk-based supervision will take a few years to develop as it did in other countries. The Insurance Commission could begin with one industry, perhaps the life industry, then gradually move on to nonlife and the others.

- (e) *Informal insurance.* Recognizing the proliferation of informal insurance schemes, particularly among entities dealing with the low-income market, the Insurance Commission, together with the SEC and the CDA, issued three circulars in 2010 and 2011 defining the government policy on informal insurance activities. Only licensed insurance entities are allowed to provide and underwrite insurance products. The circulars list various options for formalization.

While the three circulars provide for the coordination of the three regulatory agencies in implementing the provisions, operational procedures and guidelines still have not been drawn up. The Insurance Commission has jurisdiction only over licensed insurance and pre-need providers as well as HMOs. The SEC and the CDA, on the other hand, have jurisdiction over MFI-NGOs, people’s organizations, and cooperatives that are commonly known for implementing informal insurance activities. Neither the SEC⁶⁶ nor the CDA⁶⁷ has come up with effective supervisory mechanisms that will enable them to determine when an entity under its jurisdiction is engaged in informal insurance schemes. Also, while the circulars clearly provide for sanctions, the operational mechanisms (by which such sanctions will be implemented) are yet to be established within the relevant regulatory agencies.

Many operators of informal insurance programs have complied since 2010 by either transferring the risk of their informal programs to licensed insurers or by setting up an MBA. Others have retained some risk, self-insuring those programs that are difficult to find commercial coverage for due to the type of risks covered, or simply because they feel that it is their inherent right to operate the program. Others have transferred all the risk to an insurer but have not dealt properly with the surplus funds generated in past informal insurance activities. The Insurance Commission does not know the extent of compliance or noncompliance and is planning to conduct a survey among MFIs, cooperatives, insurers, and other players.

The viewpoint of some cooperatives, echoed through the CDA, is that some of their informal programs which are still operating have been around for decades, having been established from traditional and cultural practices. They feel that these should be tolerated, arguing that the programs remain financially sound since they are able to compel members to increase member-contributions or adjust benefits at any time (either through board or general assembly, depending on the cooperative), that running these programs in-house is more efficient (since there are fewer layers of administration), and it allows them to customize in ways not possible when outsourced to regulated insurance. In view of this, the CDA recommends that a thorough study be conducted to document the remaining informal programs and, based on the findings and analysis, give consideration for a regulatory space that permits limited types of these self-insured practices. For example, in neighboring Indonesia,

⁶⁶ In implementing the new Republic Act 10693 (An Act Strengthening Nongovernment Organizations Engaged in Microfinance Operations for the Poor), the SEC will be able to discredit an MFI-NGO if it has an informal insurance program.

⁶⁷ The CDA has yet to establish its regulatory and supervisory procedures and mechanisms.



primary cooperatives are permitted to operate an internal member-only social risk fund. This thinking sharply opposes the position of the regulator and the commercial insurance industry, and especially that of the two insurance cooperatives that have worked hard for more than 40 years to persuade cooperatives to transfer all of their risk protection needs to them.

There are alternative solutions that would achieve similar aims as formalization. In many countries, for example, self-insurance is legally practiced and accomplished in a technically sound manner through partnerships with commercial companies, brokers, and actuaries. An insurance company or broker could be partnered with to help manage an informal program, with the partner charging an administration service fee for this. This is not really much different from the current practice of providing experience refunds and profit sharing with large groups, such as the employee benefit programs of large employers. The insurance company or broker could provide annual pricing reviews; consultations; and other services such as advising on contribution rates, cost of benefit adjustments, etc. since they have the actuarial and underwriting capacities to provide this kind of analysis. The insurer could also sell aggregate-stop-loss coverage to the self-insured program, provide co-insurance (and thus indirectly, access to reinsurance as well), invest the program reserves and surplus, and even manage the claims for some of the more complicated products like salary continuance (disability insurance). All kinds of arrangements are possible. As such, the prudential risks of self-insurance are minimized since the technical aspects of the program are handled by regulated insurance entities and qualified professionals.

- (f) *Index-based and agricultural microinsurance.* With increased frequency of natural calamities due to climate change, the use and adoption of parametric insurance products should be given emphasis, especially those that cover agricultural assets. Since these products are different from the traditional insurance products usually evaluated by the Insurance Commission, there is a need to build the capacity of the regulator in (i) formulating guidelines for evaluation and approval, (ii) developing performance standards, and (iii) implementing evaluation and approval procedures for parametric insurance products.

As mentioned, Circular 2015-53 (Agriculture Microinsurance Framework) was developed to facilitate the development of MicroAgri by the private sector, in partnership with the public sector, where practical and possible. Proper implementation requires the Insurance Commission to come up with detailed guidelines.

There has already been real progress in developing MicroAgri. As discussed in an earlier section, GIZ has been working to develop a parametric product for insuring rice farmers in the past few years. Using satellites for remote-sensing, a product using area-based yield as the parameter for the proxy-loss formula has become practical and, if implemented on a nationwide basis with “wide enough” farmer participation, simulations performed by a reinsurer in conjunction with GIZ show that it could be commercially viable. This is, indeed, a breakthrough since there is currently no known commercially viable parametric agricultural insurance product anywhere. According to GIZ, it could become successful if the following were realized:

- To ensure wide enough farmer participation, mandatory purchase of the product should be required for farmers seeking loans for rice production.
- Stronger enforcement is needed for Republic Act No. 10000: Providing Agricultural and Agrarian Reform Credit, otherwise known as the Agri-Agra Law. The Act calls for all banks to provide loans to support agricultural activities defined under the Agriculture and Fisheries Modernization Act and the Agrarian Reform Code of the Philippines.



Specifically, the law requires banks to allocate 25% of their loans to the agriculture sector; however, most banks do not comply, opting instead to pay the penalties imposed for under-allocation.

- The Department of Agriculture collects detailed nationwide rice production data that could be used for pricing the product and for determining payouts. However, the department is reluctant to share the data and is apprehensive that it may be misused by powerful cartels for manipulating supply and prices in the rice market. The department recommends development of a detailed data-sharing protocol for this purpose.
- The Insurance Commission should permit the use of area-based yield as a parameter for constructing index-based formulas. This may require an amendment to the newly crafted Agriculture Microinsurance Framework (or just a liberal interpretation) since the framework does not specifically permit this.⁶⁸

Index-based products were conceived because traditional indemnity-based agricultural insurance products are too risky and are operationally expensive for commercial insurers. Indemnity-based agricultural products are implemented around the world only where governments subsidize them, and usually quite heavily. This is due to their susceptibility to moral hazard and the large expense of physically inspecting crops for coverage verification and claims determination.⁶⁹ Despite this challenge, Center for Agriculture and Rural Development–Mutually Reinforcing Institutions (the largest microfinance conglomeration in the country with more than 3.3 million clients of which around 1 million are farmers) has developed, and is now piloting, a traditional micro agricultural insurance product. This product, which utilizes CARD’s massive and efficient microfinance distribution system, is expected to become commercially viable. If this does work, it will become an important contribution toward providing MicroAgri access for the country’s 4.5 million farmers.

For the providers of these products, permanent and adequate reinsurance is a critical necessity. One of the potential reinsurers is the PCIC, which is also called for in the Agriculture Microinsurance Framework. Another possibility is the establishment of a government-owned reinsurer focused on reinsuring catastrophic and agricultural risks as discussed further below.

- (g) *Regulations for microinsurance mutual benefit associations.* In view of their organizational structure, MBAs can have greater proximity to the low-income market. As member-based organizations providing mutual protection, MBAs have been identified as one of the viable institutional structures for microinsurance. As such, the number of microinsurance-MBAs increased from 6 in 2006 to 22 in 2016. With the recent development of an MBA chart of accounts and the accompanying changes in the annual statement, as well as the formation of more MBAs wholly engaged in microinsurance, there is a need to come up with more defined rules and regulations for the operations of microinsurance-MBAs.⁷⁰ This is to ensure standardization of operations and practices for prudential purposes. Such rules should be

⁶⁸ The TWG cited concerns that if area-based yield were used for such a product, there could be widespread collusion among farmers to trigger product payouts. GIZ argues that this is extremely unlikely since the payouts are just enough to cover inputs and that widespread collusion is very difficult to organize.

⁶⁹ Moral hazard refers to the tendency to inadequately guard against risk exposed to when shielded from the consequences of the risk event. This is a common problem for some types of insurance.

⁷⁰ The ADB–JFPR Developing Microinsurance Project provided technical and funding assistance to the Insurance Commission in revising MBA chart of accounts and accompanying annual statements. The revisions are to ensure that microinsurance concerns are considered and accounts are suited to microinsurance operations.



able to address (i) protection of members, (ii) fit and proper rule for MBA governance, (iii) prudential requirements, and (iv) market conduct guidelines.

The micro-MBA industry has been planning to develop a self-regulatory organization with the help of RIMANSI MI-MBA Association of the Philippines, Inc. This is now possible under the Amended Insurance Code and Circular Letter 2014-29: Guidelines on the Registration and Operation of Self-Regulatory Organization. Since self-regulation of risk protection is a pioneering endeavor in the Philippines, transitioning to this will take considerable time since there are significant capacities that will have to be developed for both the proposed self-regulatory organization and the Insurance Commission.

- (h) *Product approval.* For the market to flourish, there needs to be smooth and rapid approval of new and modified products. According to industry feedback, the Insurance Commission approval process takes from 1 month to several months and, in some cases, more than a year. This represents an obstacle, making it difficult for providers and brokers to respond rapidly when their markets demand new products or changes to existing ones. It results in missed opportunities for them and is an impediment to market growth.

Product pre-approval is the most conservative approach by a regulator in achieving its regulatory targets such as fair treatment of consumers, reducing risk of failures, and so on. In the absence of it, in theory at least, there is a higher risk of product mismatch to consumer needs, inappropriate pricing, and unfair policy provisions that may exploit the consumer. There are other risks as well. The degree of control that a regulator needs to assert depends on the capacity of both providers and the regulator as well as the familiarity of consumers with risk protection products (financial literacy). With pre-approval, there are fewer products available in the market due to the tighter controls imposed and suppression of innovation. In some countries where the insurance markets are well developed, there is no pre-approval process at all, with the regulator limiting itself to monitoring the marketplace; however, if something untoward does happen, the response of the regulator is generally swift and decisive in terms of sanctions and possible revocation of licenses. A “file-and-use” approach is somewhere in between these two approaches in terms of oversight risk—new and modified products are filed with the regulator, and after a fixed period of time (say 30–60 days), if the regulator has not requested additional information or responded in some way, the product may be launched in the market. India adopted a file-and-use system for a few years, with products being reviewed by a committee of experts such as actuaries, underwriters, and others.⁷¹

If a file-and-use system were implemented by the Insurance Commission as suggested by some in the industry, acquisition of different skills would be necessary. Implementation could be gradual, beginning with a non-micro sector such as life insurance, followed by gradual rollout to other sectors as experience and capacity of the Insurance Commission develops.

- (i) *Data processing and sharing.* The Insurance Commission collects both quarterly and annual data which it uses for its annual report, periodic ASEAN reports, and for preparation of data-on-demand requested by Congress, Senate, the Department of Finance, and others. The annual report contains extensive information that is much appreciated by the industry. However, there is a need to produce it more quickly (currently it takes about 2 years) so

⁷¹ Report of the 5th A2ii-IAIS Consultation Call – Product Oversight in Inclusive Insurance, 2014.



that it can be used by the industry for pricing and marketing information. In addition, some industry players would like to see quarterly data collected by the Insurance Commission to be shared in a consolidated form in a variety of breakdowns so that it can be analyzed by product line, distribution methods, and so that important indicators, such as expense and claims ratios, could be calculated by the various product lines.

Under the World Bank First Initiative project, a report-generating tool was developed which was intended to relieve the task of manually producing the annual report and periodic ASEAN reports. More generally, the tool can be used to generate *any* type of Microsoft Excel report that is prepared from a collection of standardized Excel worksheets containing industry data. For it to work, the Insurance Commission should prepare standard templates for all types of regular data submissions. These templates have to be locked and edited in some areas; hence, to develop and modify them requires Insurance Commission technicians with some strong Excel and Visual Basic programming skills.

Other challenges

- (a) *Climate change and micro risk protection.* Recent climate change phenomenon has resulted in significant changes in the country's weather patterns. While climate change affects all segments of society, its negative impacts are more severely felt by the low-income sector. More importantly, efforts toward poverty reduction can be easily eroded by one catastrophic incident such as a typhoon. While integrating adaptation to climate change processes into poverty reduction programs may mitigate this, there is still a need to identify and expand the options of the poor to reduce their vulnerability to current and future risks. Traditional risk-sharing mechanisms (e.g., asset pooling, kinship) may be complemented by microinsurance. Government agencies and organizations implementing climate change adaptation programs may be encouraged to partner with providers to enhance coverage to their clients and constituents. Pilot-testing partnership between local government units (LGUs), private providers, and national agencies in the area of climate change and micro risk protection is an endeavor worth pursuing given the current realities on the occurrence of natural disasters and catastrophic risks.

- (b) *Reinsurance for catastrophic and agricultural risks.* The effects of climate change were demonstrated with the severity of Typhoon Haiyan (known as Super Typhoon Yolanda in the Philippines) in November 2013. More powerful than any typhoon ever experienced anywhere in recorded history, Typhoon Haiyan's impact was unprecedented. The storm affected 16 million Filipinos, killing nearly 4,000, and injuring close to 30,000 more. It completely destroyed 490,000 houses and damaged 600,000 more. It resulted in over 125,000 microinsurance claims of which 98% came from calamity coverage products with an average benefit of P4,777 (\$106).⁷²

⁷² 2015 Microinsurance Network: Aiding the Disaster Recovery Process—The effectiveness of microinsurance service providers' response to Typhoon Haiyan.



The large number of benefit payments had a great educational and demonstration effect, enhancing the public's understanding and appreciation for risk protection. However, when this event occurred, it became evident that many in the insurance industry had not fully understood the degree of risk concentration that an insurer is exposed to when offering calamity risk products.⁷³ In the aftermath, some existing calamity microinsurance products were either discontinued or greatly modified so that if another catastrophic event were to occur, the provider's aggregate liability would be capped. Had these maximums been in effect before Haiyan, the beneficial assistance provided through those products would have been an insignificant trickle.

While market appetite for protection against calamities greatly increased after Haiyan, insurers can no longer offer similar coverage value mainly because reinsurance is either not available or it has become too expensive due to this catastrophic event. Stakeholders, therefore, propose the establishment of an industry-wide risk pool for reinsuring the main catastrophic risks that the country is vulnerable to.⁷⁴ This should be a public-private initiative between the Government of the Philippines, the Insurance Commission, and the private sectors. It could, for example, take the form of a dedicated reinsurance company, capitalized and backed by the government with private sector participation, and either registered under the existing Insurance Code or under its own special law.⁷⁵ This company should also be able to accept agricultural reinsurance risks together with PCIC.

- (c) *Harnessing the potential of public-private partnerships.* At present, the government is providing social insurance for health and agriculture. The former is supposed to provide universal access to health insurance, while the latter is to provide crop and livestock insurance to farmers based on indemnity. Both the MicroHealth and MicroAgri frameworks developed recently are for facilitating more rapid market development as well as public-private partnerships, especially with PhilHealth and PCIC. Coverage complementation, enhanced distribution, and reinsurance (as discussed for MicroAgri earlier) are just some of the various partnership modalities that could be realized. The lack of public-private cooperation in the health and agricultural insurance sectors warrants refocusing and a special study of the underlying obstacles that could be addressed.
- (d) *Financial literacy.* As mentioned earlier, risk protection (or risk transfer) products, such as insurance, is a business of trust, and education is necessary to build such trust. Most of those in the low-income sector lack information and understanding about purchasing such products. They are not keen on making payments for an intangible product such as insurance with benefits that could be claimed only when a contingency happens. They think the premium they paid is wasted when there is no contingent event. The concept of making a payment with their hard-earned money to a party that they do not know well enough to trust in exchange for a promise to be protected is counterintuitive, alien, and inconsistent with their life experiences.

⁷³ Risk concentration refers to a situation that, when the covered risk event occurs, it affects a "large" proportion and number of the insured risks. In this case, the typhoon destroyed virtually every home in its direct path and affected some 100% of those with calamity coverage.

⁷⁴ Risk pool participants would be required to follow certain governance, management, and underwriting standards.

⁷⁵ To get a better idea, it may be worthwhile to study a reinsurance company recently set up by the Government of Mongolia. It was set up mainly to reinsure the livestock herding industry in Mongolia, although it will broaden its scope to cover other industries vital to their economy.



Moreover, a large number of clients are not aware of their rights and responsibilities as financial risk protection consumers. They need therefore to be informed on who the qualified providers and distributors are, what a valuable product is, and what benefits and payouts they are entitled to under various types of circumstances and events. They also need to know where they can go to in case of disputes and complaints.

There is a strong need to build a risk protection culture among the poor. Educating the low-income market to overcome their bias against risk protection is a major challenge. There is a need for implementation of a comprehensive financial education program that teaches clients to become proactive money managers. Such program should enable them to consider micro risk protection as one of several financial instruments they can use effectively to build their assets and improve their income position.

Being at the forefront of development, the LGUs may be tapped as partners in implementing financial literacy programs at the local level. However, the programs can only succeed if they are applied on a continuous and permanent basis. Financial literacy education is a continuous and long-term process requiring a shift in the collective consciousness of families and communities.

Both components of the ADB–JFPR projects contained financial literacy Training on Microinsurance Advocacy for LGUs. This is an extensive 2-day modularized training on risk protection, microinsurance, roles and responsibilities of and messages to the key stakeholder groups, presentation skills, and facilitation techniques. It is intended to capacitate LGU staff in becoming advocates for microinsurance in the community. A complete set of training materials is provided to each LGU. The Training on Microinsurance Advocacy was carried out in several pilot areas during the duration of both project components.

This type of training should be conducted at every LGU in the country. LGUs should, in turn, deliver financial literacy training in the entire community on a permanent basis. This will definitely enhance understanding, appetite, and trust in the market and advance the objective of maximum penetration of microinsurance products. This is justifiable in that it meets government objectives to protect the public from life cycle and risk events that perpetuate poverty.

- (e) *Anti-Money Laundering Act*. Under Republic Act 9160 (*Anti-Money Laundering Act*), banks and other financial institutions, such as remittance centers and pawnshops, must comply with “know your customer” (KYC) procedures that aim to establish if funds involved in a transaction are from a legitimate source and acquired lawfully. It requires institutions to collect a customer’s name, address, nature of employment or livelihood, date and place of birth, nationality, and contact numbers. This information must be encoded and available in a current customer database.

Microinsurance providers and distributors opine that the KYC requirements are unnecessarily strict. There is too much information that needs to be collected, especially given the strong unlikelihood that money would be laundered using microinsurance purchases. Many low-income Filipinos do not even have one identification card, and to buy microinsurance, they need to produce two current valid identification cards with photos. The BSP has already relaxed the KYC requirements somewhat for delivery of micro risk protection (i) by permitting



the outsourcing of the face-to-face customer contact and gathering of the documents and information required for KYC to establish identity; (ii) listing of a wide variety of acceptable identification cards and the permission to utilize an institution's own technology to take photos of customers if the identification card presented is non-photo-bearing such as a tax identification number, barangay certification, or Department of Social Welfare and Development certification; and (iii) by permitting third-party reliance to avoid duplication of customer identification processes.⁷⁶ Without these measures, microinsurance distribution through intermediaries would have been much more difficult if not nearly impossible.

⁷⁶ Discussions with the BSP and from BSP Advocacy on Anti-Money Laundering (www.bsp.gov.ph/about/advocacies_anti.asp).



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Assessment of Microinsurance as Emerging Microfinance Service for the Poor

The Case of the Philippines

The Asian Development Bank (ADB) is an active partner of the Government of the Philippines in developing microfinance—the provision of insurance products that meet the needs of the disadvantaged for risk protection and relief against misfortune. As a result, microfinance activities have increased, and diversified formal financial services were made available to impoverished clients at affordable costs. However, there is still the risk of making poverty-stricken clients worse off because of unexpected events, prompting ADB to create interventions that focus on microinsurance development. This report assesses the expansion of microinsurance activities based on the Philippines’ experience, with guidance on next steps forward.

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