

**Assessment of Microinsurance
as Emerging Microfinance
Service for the Poor**
The Case of the Philippines



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Asian Development Bank

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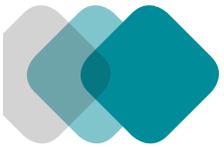
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Abbreviations

ADB	Asian Development Bank
ARBY	area-based yield index insurance
ASEAN	Association of Southeast Asian Nations
BSP	Bangko Sentral ng Pilipinas
CDA	Cooperative Development Authority
CGAP	Consultative Group to Assist the Poorest
CHAMBAI	Chamber of Mutual Benefit Associations
DOF	Department of Finance
GDP	gross domestic product
JFPR	Japan Fund for Poverty Reduction
MBA	mutual benefit association
MFI	microfinance institution
NCC	National Credit Council
NSCB	National Statistical Coordination Board
NGO	nongovernment organization
PhilHealth	Philippine Health Insurance Corporation
SEC	Securities and Exchange Commission



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Sector Assessment: Development and Strategic Issues

Sector Overview

Microfinance Development in the Philippines

Just like 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.¹ 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 dole outs by a majority of borrowers, resulting in very 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 nonprovision of credit subsidies, phaseout of directed subsidized agriculture credit programs, and adoption of market-based interest 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

¹ The National Credit Council (NCC) is an agency under the Department of Finance (DOF) 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.



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 Bangko Sentral ng Pilipinas (BSP) to formulate and issue regulations that recognize the peculiar characteristics of microfinance. As a result, the BSP issued relevant circulars that allow noncollateralized 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 market-based interest rate policy, opened the gate for banks to provide microfinance services to the low-income sector. As of 30 June 2011, 198 banks have already engaged in microfinance operations. Recognizing the viability of microfinance as an industry, several commercial banks are currently providing wholesale funds to private financial institutions engaged in retail microfinance services. Some commercial banks, however, have 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 less than 500 microfinance institutions engaged in the provision of microfinance services in 1997, currently there are more than 2,000 MFIs, including branches, and about 7 million microfinance clients from only about less than 500 thousand before the year.

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 three consecutive years (2009–2011), the Economist Intelligence Unit has 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.”² In 2010–2011, the country was adjudged as having the best microfinance regulatory framework among 54 countries.

Based on 2009 report, 26.5% of the Philippine population lives below the poverty line.³ This constitutes 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 have been 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, an increasing number of MFIs recognize the need of the low-income sector for risk protection. Savings and credit alone are not enough to protect the poor from

² Economist Intelligence Unit. 2009–2011. *Global Microscope on the Microfinance Business Environment*. 2009.

³ The National Statistical Coordination Board (NSCB) 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.



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 them 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 opted to organize their clients into a mutual benefit association (MBA), an entity separate from an MFI, which provides basic insurance products to its members. Cooperatives, on the other hand, invested in cooperative insurance societies, which provide and sell insurance products to their members.

A good number of MFIs are 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 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.

The Philippine Insurance Industry

The Insurance Code of the Philippines⁴ provides the framework for the regulatory and policy environment of the insurance industry in the Philippines. The code designates the Insurance Commission as the regulatory authority mandated to supervise and examine all the players in the industry.

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 14 August 2012, there are 103 commercial insurance companies whose certificates of authority to conduct insurance business were renewed for 2012–2013. The commercial insurance companies comprise 4 composites, 29 life companies, 74 nonlife companies, and 1 reinsurance company. There are also 2 cooperative insurance societies that are at the same time licensed as commercial insurance companies, one of which was given a composite license in 2010; and 20 MBAs, 17 of which are wholly engaged in microinsurance business.

⁴ The Insurance Code of the Philippines, Presidential Decree (PD) 612, was issued on 18 December 1974. This was amended by PD 1460, the Insurance Code of 1978, which took effect on 11 June 1978. 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.



The Philippine insurance industry grew over time, although at a relatively slow pace compared with that of its Association of Southeast Asian Nations (ASEAN) neighbors. In terms of asset and insurance premium volume, the Philippines ranks fifth among the ASEAN countries. As of 31 March 2012, the total assets of the insurance industry amounted to P628.34 billion, 82.5% of which were contributions of life sector and 17.5% of nonlife sector. The total net worth of the insurance industry was P157.2 billion as of March 2012.

The combined premium income of the insurance industry reached P109.4 billion in 2011, posting an 18.4% increase from the 2010 level. Despite the increase in premium income, insurance activity was a measly 1.15% of the country's gross domestic product (GDP) in 2011.⁵ This is lower than the 1.44% level in 2007. Life sum insured as percentage to GDP, however, increased from 26.48% in 2007 to only 30.8% in 2011.

Table 1 Insurance Data Over Time, 2007–2011

	2007	2008	2009	2010	2011
Gross National Income*					
Current Price	8,634,132	9,776,185	10,652,466	11,996,077	12,878,127
Constant Price	6,276,013	6,590,009	6,988,767	7,561,386	7,803,016
Gross Domestic Product*					
Current Price	6,892,721	7,720,903	8,026,143	9,003,480	9,735,521
Constant Price	5,028,288	5,237,101	5,297,240	5,701,539	5,924,409
Population	88.7	90.5	91.0	92.6	94.2
Per Capita Gross National Product (P)	97,340.8	108,024.1	117,060.1	129,547.3	136,710.5
Labor Force (Average) **	36.63	36.81	37.89	38.91	40.00
Employed	33.70	34.09	35.06	36.05	37.19
Unemployed	2.93	2.72	2.83	2.86	2.81
Exchange Rate (P per \$)	41.40	47.49	46.36	43.88	43.93
Inflation Rate (%)	1.25	4.26	2.09	1.51	2.72
Per Capita Expenditure (P)	1,080.8	859.5	845.4	1,000.2	1,191.4
Life	859.2	628.6	620.8	752.4	916.6
Nonlife	221.6	230.9	224.6	247.8	274.8

continued on next page

⁵ Also known as insurance penetration, which is defined as the total premiums divided by gross domestic product.



Table 1 continued

	2007	2008	2009	2010	2011
Life Sum Insured (% GDP)	26.48	25.99	27.41	25.56	30.80
Life Sum Insured (% GNP)	21.14	20.53	20.65	19.18	23.28
Premiums (Life and Nonlife)					
% GDP	1.44	1.01	1.02	1.04	1.15
% GNI	1.15	0.80	0.77	0.78	0.87
Gross Value Added On Insurance	78,908	83,241	86,983	99,169	112,946
Estimated Life Insurance Coverage (%)	13.63	14.01	14.08	16.33	18.29

GNI = gross national income, GDP = gross domestic product, GNP = gross national product, P = peso, \$ = US dollar.

* In million pesos.

** In million persons.

Source: Insurance Commission.

The average amount of insurance spent by each person in the Philippines increased from P1,081 (\$26.1) in 2007 to P1,191 (\$27.1) in 2011. Of this amount, about 77% was spent on life insurance and only about 23% for nonlife insurance. The total amount spent on insurance was less than 1% per capita income.

The insurance penetration rate, which is the ratio of insurance premiums to GDP, was only 1.15% in 2011 and 1.04% in 2010. This is low compared with that of the ASEAN neighbors. In 2010, Malaysia had an insurance penetration rate of 4.8%; Singapore, 6.1%; and Thailand, 4.3%. Vietnam's insurance penetration rate in 2009 was 1.55% while that of Indonesia in 2008 was 1.30%.

The relatively low level of insurance activity, as well as the low level of expenditures on insurance services, indicates the relative importance of insurance as a financial service in the country. This is further substantiated by the relatively low estimated life insurance coverage of the population at only 18.29% in 2011, indicating that there is room for growth for the Philippine insurance industry.

While total sum insured for life is about 31% of GDP, only 18% of the population is covered with life insurance. Together with the information that the increase in premium income during the year came mostly from variable insurance premiums, this seemingly indicates that those who are insured have relatively large amount of insurance cover and that they mostly must have come from the higher-income sector.

Considering that the poor are most vulnerable to risks, the foregoing information underscore the importance of providing appropriate risk protection products and services to the low-income sector. Llanto, Geron, and Almarino (2009) estimated that only about 3.1% of the adult population in the low-income market has insurance from licensed insurance providers. These are mostly clients of microfinance institutions availing of credit life insurance.



Microfinance Sector Assessment

Government Policy Thrusts and Sector Strategy

The proportion of poor Filipinos living below the poverty line remains high despite the increase in the country's economic growth rate in recent years.⁶ The National Statistical Coordination Board (NSCB) reported that poverty incidence was 26.4% in 2006 and 26.5% in 2009. Compared with that in other ASEAN countries, poverty incidence in the Philippines remains one of the highest, next to Cambodia with 30.1% and the Lao People's Democratic Republic with 27.6% in 2010.⁷

Recent studies and discussions highlight the importance of providing the poor access to various types of financial services. Household surveys and other empirical evidence show 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 services⁸ (lower than the East Asia average). It further reported that while branches of formal financial institutions have been increasing, access to and use of financial services have remained limited for poorer and more rural areas. This is further substantiated by an NSCB report that among the basic sectors, fisherfolks had the highest poverty incidence at 41.4% in 2009 followed by farmers at 35.7%.

Sustainable and equitable growth allows the low-income sector to share the benefits and results of economic growth. 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" (PDP, 2010–2016). This shall 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 shall 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

⁶ According to the NSCB, the proportion of poor Filipinos was 28.4% in 2000, 24.9% in 2003, 26.4% in 2006, and 26.5% in 2009. On the other hand, the country's average three-year growth rates in terms of the gross domestic product, or the value of goods and services produced domestically, ranged between 3.5% and 4.7%. (http://www.neda.gov.ph/ads/press_releases/press_releases_details)

⁷ ADB. 2012. *Basic Statistics 2012*. Manila.

⁸ 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.



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.

The Philippine Microinsurance Industry

Early Developments

As mentioned previously, about 23.1 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 situations 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 risks 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.

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.”

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:

- (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 (\$4,024) 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 (\$3 million) to P5 million (\$122,000). This provision, however, applies only to a “microinsurance MBA” defined as one that provides microinsurance policies to at least 5,000 member-clients.

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 and recognizes these as a vehicle for delivering microinsurance services.

Recent Government Policy Thrusts and Directions in 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,⁹ the Department of Finance–National Credit Council (DOF–NCC),¹⁰ in coordination with the Insurance Commission and with technical assistance from the Asian Development Bank (ADB)¹¹ and the German Agency for International Cooperation (GIZ),¹² formulated and developed the Regulatory Framework 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, Securities and Exchange Commission (SEC), Cooperative Development Authority (CDA), Department of Health, 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.¹³ 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 for microinsurance,¹⁴ 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

⁹ Mutual benefit associations (MBAs) allowed to provide only basic life insurance products to their members.

¹⁰ 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.

¹¹ The Asian Development Bank–Japan Fund for Poverty Reduction (ADB–JFPR) funds the Developing Microinsurance Project, which provides 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.

¹² The German Agency for International Cooperation (GIZ) provides technical and funding assistance to the NCC and the Insurance Commission through the Microinsurance Innovations Program for Social Security (MIPSS). The project complements the ADB–JFPR project on microinsurance.

¹³ The National Strategy for Microinsurance paper was a joint effort of the members of the technical working group (TWG) organized by the DOF and supported by the German Agency for Technical Cooperation (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, Inc. (CHAMBAI), Risk Management Solutions, Inc. (RIMANSI), Coop Life Insurance and Mutual Benefit Services (CLIMBS), Cooperative Insurance System of the Philippines (CISP), Philippine Life Insurance Association (PLIA), Philippine Insurers and Reinsurers Association (PIRA), Association of Health Maintenance Organizations of the Philippines, Inc., GTZ, and ADB.

¹⁴ The Microinsurance Regulatory Framework is a joint effort of the members of the TWG organized by the DOF and supported by ADB–JFPR. The members of the TWG are DOF–NCC, Insurance Commission, CDA, BSP, SEC, NAPC, CHAMBAI, RIMANSI, CLIMBS, CISP, PLIA, PIRA, Microfinance Council of the Philippines, GTZ, and ADB.



for the poor. 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 microfinance 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), while the SEC registers microfinance NGOs.¹⁵ The SEC only requires submission of annual financial statements from microfinance NGOs.

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 shall 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 product was defined¹⁶ 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.

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 better and improved mortality rates and better and more cost-efficient technology. Also, with a higher number of poor people insured, the risks are spread out. Likewise, increased options for delivery channels shall also lower the costs of insurance distribution.

¹⁵ The CDA is setting up a regulatory unit that will be responsible for the supervision and regulation of cooperatives, especially those engaged in the provision of savings and credit operations. The unit is yet to fully operate.

¹⁶ 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.



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.

Regulations Facilitating the Safe Provision of Microinsurance

Following the approval of the national strategy and the regulatory framework, the Insurance Commission issued several circulars implementing various provisions of the framework (Table 2).

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
Circular 5–2011	Prescribes the use and adoption of the performance 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

SEGURO = solvency, efficiency, governance, understanding of the product by the client, risk-based capital, and outreach.

Source: Insurance Commission.

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

Affordable microinsurance products. The definition and features of microinsurance stipulated in Insurance Memorandum Circular 1–2010 provide parameters to insurance providers in designing products that are affordable and accessible, and with contracts that are simple and easily



understandable by the poor. The maximum limit for microinsurance premium payments also provides insurance providers a benchmark in designing and creating innovative insurance products that are affordable to the poor. Table 3 highlights the basic features of a microinsurance product, and how it differs from the traditional insurance product as provided for in the regulations.

Table 3 Difference between Microinsurance and Traditional Insurance Product

Common Provisions for Individual/Group Insurance Plans	Traditional Insurance Products	Microinsurance Products
Maximum Premium	No limitation	5% of the current daily minimum wage rate in Metro Manila (P22.30 or \$0.53) *
Maximum Benefit	No limitation	500 times the daily minimum wage rate in Metro Manila (P223,000 or \$5,373)
Policy Contract	Full of complex conditions	Simple and easy to understand
Frequency of Premium Collection	Monthly, quarterly, semiannual, annual	Daily, weekly, monthly, quarterly, semiannual, annual
Grace Period**	31 days from premium due date	45 days from premium due date
Contestability Period***	Maximum of 2 years from date of issue or last reinstatement of policy	Maximum of 1 year from date of issue or last reinstatement of policy
Suicide Clause	Maximum of 2 years from date of issue or last reinstatement of policy	Maximum of 1 year from date of issue or last reinstatement of policy
Claims Settlement	Within 60 days after submission of complete documents	Within 10 days after submission of complete documents

* As of 3 June 2012, minimum wage rate in Metro Manila is P446 (conversion using P41.5 to \$1). <http://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: Presentation of the Insurance Commission during the advocacy seminars conducted as part of the regional financial literacy road shows.

Shorter period for claims settlement. Unlike traditional insurance products wherein insurance providers are given a maximum of 60 days to settle insurance claims, microinsurance regulation mandates and requires providers to settle microinsurance claims within 10 working days after submission of complete requirements. 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 a risk.

Simple and easy-to-understand policy 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 contracts¹⁷ for both life and nonlife products. The simply worded and straightforward prototype microinsurance policy contracts, devoid

¹⁷ 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.



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.

Simple documentary requirements. Most 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 allows the use of alternative documents such as barangay certificate.

Increased options for distribution. Only providers, agents, and brokers licensed by the Insurance Commission are allowed to sell insurance products. 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 through the circular allows not only individuals but also entities, particularly microfinance institutions as well as other community-based organizations or associations, to be eligible as microinsurance agents. Unlike a traditional insurance agent, a microinsurance agent is not required to take the regular agent licensure examination but only to undergo an approved microinsurance training program and to pass a qualifying examination after the training.¹⁸ The Insurance Commission prescribes the training requirement for a microinsurance agent and has accredited training institutions allowed to conduct the prescribed training program.

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 Bangko Sentral ng Pilipinas (BSP) issued Circular 683, Series of 2010 allowing rural banks to apply for license for microinsurance agent, provided they follow certain requirements.

Allowing microfinance institutions and other community-based organizations to become microinsurance agents 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.

Tiered capitalization requirements. To further encourage insurance providers to cater to the microinsurance market, the regulatory framework supports a lower capitalization requirement for insurance providers wholly 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 by an amount equivalent to 5% of their gross premium collections until the amount of the fund shall have reached P12.5 million.

¹⁸ For microfinance institutions (MFIs) and other organizations interested to become microinsurance agents, they 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.



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. Under the proposed amendments in the Insurance Code, the capitalization of commercial insurance companies wholly engaged in microinsurance shall also be half of what is required of domestic insurance companies. This is also identified as one of the provisions under the regulatory framework.

Adoption of Performance Standards for Microinsurance

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 standards for microinsurance operations.¹⁹ The performance standards provide specific indicators for solvency, efficiency, governance, understanding of the product by the client, risk-based capital, and outreach.

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

Expanded admitted assets. To provide additional 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 the margin of solvency 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 are engaged in informal insurance schemes. It is also estimated that about half of the 22,000 operational cooperatives in 2007 were engaged in providing informal insurance services through the mutual fund schemes. Most of the informal insurance schemes, which are not licensed by the Insurance Commission, are provided by cooperatives or microfinance NGOs.²⁰

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. Because the commission does not have jurisdiction over entities engaged in the informal activities, it

¹⁹ 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.

²⁰ Initially, a few banks started to provide informal insurance schemes to their clients. However, the BSP, upon discovery during the annual supervision and examination of bank operations, prohibited these schemes. .



coordinated with and solicited the support of other regulatory authorities that have jurisdiction over those engaged in informal insurance schemes.

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.²¹

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 the ADB–JFPR and the GIZ, developed a road map to microinsurance financial literacy. The road map²² identifies the nine key stakeholders²³ in microinsurance to whom advocacy and literacy activities should be directed. 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 in September 2011–August 2012. The road shows comprised training for microinsurance advocates, public advocacy seminars, and press conferences. The training on 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.

²¹ 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 or mutual benefit associations.

²² The road map was developed by the TWG on financial literacy on microinsurance comprising members from both the government and the private sector.

²³ The key stakeholders identified are legislators, regulators, national agencies, local government units, insurance providers, intermediaries, support institutions, donors, and clients.



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 2011, premium incomes earned on both life and nonlife microinsurance products amounted to P91.8 million. Table 4 shows other key market responses on microinsurance as of July 2012.

Table 4 Key Market Responses

Before 2008	As of July 2012
Microinsurance products mostly credit life, except for mutual benefit association (MBA) microinsurance products	80 microinsurance products approved (54 life and 26 nonlife) *
6 licensed microinsurance MBAs	17 licensed microinsurance MBAs
Very few commercial insurance companies with microinsurance	28 insurance companies (16 life and 12 nonlife) selling microinsurance products
No microinsurance agent category	116 licensed as microinsurance agents (26 rural banks and 90 individuals)
3.1 million individuals covered by microinsurance MBAs (about 600,000 certificates issued, given an average family of five members)	About 7.8 million insured, including dependents, covered under microinsurance

* 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 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.

Table 4 shows there is 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 NGOs to adopt any 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 insurance providers. Likewise, there is still 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 the Developing Microinsurance Project

Developing Microinsurance Project. In 2008, ADB with funding support from the Japan Fund for Poverty Reduction (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).²⁴ The project aims to support the sound development of microinsurance, a microfinance service to protect the poor from unforeseen calamities, and to reduce severe poverty incidence. It is executed by the DOF–NCC with the Insurance Commission as the implementing agency.

It is directed toward (i) helping the government formulate and adopt suitable microinsurance regulations by reviewing the current policies and regulations and by improving 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.

As shown in earlier sections of this report, the microinsurance industry in the Philippines has developed over the last 5 years. Having provided assistance from October 2008 to September 2012, the project assisted by ADB–JFPR was instrumental in facilitating the development of the industry. Following are the lessons learned during project implementation:

- (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, Insurance Commission) 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 shall only provide the necessary technical support to the concerned government agencies and partners.

²⁴ By strengthening the capacity of the Philippines' microinsurance sector, the project complements 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.



- (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, technical working groups (TWGs)²⁵ 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.

Project experience showed donor technical assistance has far-reaching impact when the support of the concerned 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 microfinance institutions 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 the project, microinsurance is a new territory not only for clients but for insurance providers as well. Most of the providers are not familiar with the low-income sector and therefore do not consider them as a potential market. Hence, insurance products are mostly designed for the middle class and the higher-income groups. This shows 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 should be provided to insurance providers so that products fit to the needs of the low-income sector could be designed appropriately.

²⁵ The following TWGs were created during project implementation: (i) TWG on the formulation of the Regulatory Framework for Microinsurance; (ii) TWG on the development of the performance standards for microinsurance; (iii) TWG on the development of the road map to financial literacy in microinsurance, and (iv) TWG on the development of materials and training modules on microinsurance advocacy.



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, there are also other donors that provided technical or grant assistance in microinsurance to various institutions.

- (a) **German Agency for International Cooperation.** The German Agency for International Cooperation (GIZ) implements the Microinsurance Innovations Program for Social Security (MIPSS). It aims 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 Developing Microinsurance Project funded by ADB–JFPR, the MIPSS is executed by the DOF–NCC and implemented by the Insurance Commission. A joint steering committee provides direction to the two projects. The two projects complement in the implementation of various activities on the provision of necessary technical assistance to the government in establishing the appropriate policy and regulatory environment for microinsurance.

The program uses a diversified implementing structure and networks with both global and local actors. It has also a public–private partnership with Munich Re and Coop Life Insurance and Mutual Benefit Services in developing and implementing a natural catastrophic insurance product (also called a weather-protect product). It 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 Philippine Crop Insurance Corporation developed and pilot-tested the area-based yield index insurance (ARBY) in three national irrigation systems for the wet cropping season of June to November 2011. Selling of ARBY in Leyte has continued in the succeeding cropping seasons.



In 2012, GIZ partnered with 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 will use remote-sensing technology to enhance the ARBY feature on area-yield determination and for other agriculture insurance solutions.

- (b) *United States Agency for International Development.* The United States Agency for International Development (USAID) provides technical assistance to the Rural Bankers Association of the Philippines (RBAP) through the Microenterprise Access to Banking Services Project. The project is a technical assistance designed to assist partner rural banks in providing microentrepreneurs, small farmers, and low-income households access to financial services. It provides 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, Inc. (RBRDFI) and with the issuance of relevant circulars allowing rural banks to become licensed microinsurance agent, the project provided technical assistance to rural banks applying for a microinsurance agent license.

- (c) *International Labour Organization–Microinsurance Innovation 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 are given capacity-building assistance to meet the various requirements for a microinsurance agent.

As of August 2012, the RBRDFI microinsurance initiative has already trained a total of 192 rural banks and 419 staff and officers in the 2-day basic microinsurance training course; and assisted a total of 77 rural banks in Insurance Commission licensing and BSP accreditation. Also, 36 rural banks have already been issued microinsurance agent licenses by the Insurance Commission, and 29 rural banks have been authorized by the BSP to apply for a microinsurance agent license.

- (d) *World Bank First Initiative Project.* The World Bank First Initiative Project is currently providing 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 will help build and improve the capacity of the Insurance Commission in generating regular reports and statistics for publication. Information gathered shall help both the insurers and the regulator assess the performance of their individual companies in relation to the whole industry, especially in microinsurance.



Remaining Development and Strategic Issues

The microinsurance industry has progressed during the last 5 years. The policy and regulatory environment for the development of the microinsurance industry has been established. There has also been increased awareness and interest in microinsurance among key stakeholders. However, there is still room for growth, considering that at present only about 7.8 million are insured (including dependents) with a microinsurance policy. This falls short of the potential demand from the low-income sector based on the latest poverty statistics indicating that as of 2009 about 23.1 million people were living below the poverty line.

To ensure further massification (growth in mass market) of microinsurance, it is necessary to sustain the interest of insurance providers in the low-income market (to increase supply) and build trust and confidence in insurance among the microinsurance clients (to increase demand). To do these, some remaining issues need to be considered.

Addressing remaining regulatory challenges and building the capacity of the Insurance Commission. For microinsurance to be sustainable, the regulator should be able to adequately protect the interests of the consumers or clients while ensuring the growth and stability of the industry. Rules and regulations, as well as procedures and systems for evaluating insurance products, insurance providers, and intermediaries, should be able to maintain a balance between facilitating access to microinsurance and client protection. In this regard, the capacity of the Insurance Commission needs to be enhanced with specific focus on the following regulatory challenges:

- (a) *Ensuring the effectiveness and soundness of innovative delivery channels.* Affordability of premium payments and accessibility to services are two of the key issues in microinsurance. To address these, it is important that the cost of administration and distribution for microinsurance is kept to a minimum without sacrificing the timely settlement of claims. Maintaining low cost of administration and distribution is important for microinsurance to be able to offer affordable and accessible insurance products that fit the needs and peculiarities of the low-income market. On the part of the clients, it is also important that transaction costs are kept to a minimum. Accessibility to microinsurance services is facilitated by the prospective client's familiarity with the distributor or by innovative and nontraditional delivery channels. The use of institutions, associations, and points of sale in proximity to the clients play an important role in expanding the reach of microinsurance. To ensure that these delivery channels are facilitating trust in the insurance system, the Insurance Commission needs to develop appropriate rules and guidelines.
- (b) *Consumer protection through appropriate market conduct guidelines.* Insurance is a business of trust. To build and enhance trust between the insurance provider and the microinsurance client, the Insurance Commission allowed 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). 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 microinsurance policyholders. Market conduct rules that respond to the peculiarities of the low-income client in terms of policies, claims, and consumer recourse should be formulated. The paper of the Consultative Group to Assist the Poorest (CGAP) 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 insurance 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.

The framework for alternative dispute resolution in microinsurance being developed by GIZ 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 circular, will help address issues on consumer protection in microinsurance.

Aside from providing an alternative mechanism for complaints, an appropriate code of conduct among insurers and intermediaries should also be developed to ensure transparency, in coordination with associations of insurance industry and insurance intermediaries.

- (c) *Use of technology-based platforms.* As microinsurance moves toward greater outreach and massification, the need for enhanced efficiencies in distribution and lower transaction costs for delivery channels and clients is recognized. The availability and use of technology (e.g., mobile phones, chip cards, and netware) and technology-based solutions to bring down costs, improve product value to policyholder, and cover more microinsurance clients provide great potential for increasing microinsurance reach. To encourage the use of technology-based platforms that facilitate growth and ensure protection of consumers, regulator and policy makers should provide the enabling environment. To date, the Insurance Commission is yet to come up with the relevant policy framework and rules and regulations for the use of technology-based platforms in microinsurance.
- (d) *Adoption of risk-based supervision approach.* In recent years, supervision of financial institutions has evolved from compliance-based to risk-based. 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 supports the financial inclusion principle of proportionality wherein regulations and supervisory interventions are given proportionate to the risks involved. With this approach, insurers are encouraged to innovate and respond to market demands. This is particularly important for microinsurance inasmuch as the peculiarities of the low-income market calls for innovations in the way insurers design and distribute microinsurance products and services. At present, the Insurance Commission is still using the compliance-based approach to supervision. For microinsurance to further be developed, it is important to build the capacity of the Insurance Commission on the adoption and implementation of a risk-based supervision approach.



- (e) Ensuring the formalization of informal insurance schemes. Recognizing the proliferation of informal insurance schemes particularly among entities dealing with low-income market, the Insurance Commission, together with the SEC and the CDA, has issued three circulars defining the government policy on informal insurance activities. Only licensed insurance entities are allowed to provide and underwrite insurance products. Various options for formalization are also provided.

While the three circulars provide for the coordination of the three regulatory agencies in implementing the provisions, operational procedures and guidelines still need to be drawn up. The Insurance Commission has jurisdiction only over licensed insurance providers. The SEC and the CDA, on the other hand, have jurisdiction over microfinance NGOs, people's organizations, and cooperatives that are commonly known for implementing informal insurance activities. Unfortunately, both the SEC and the CDA²⁶ have not yet come up with 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 shall be implemented are yet to be established within the relevant regulatory agencies.

- (f) *Approval and evaluation of index-based microinsurance products.* With increased frequency of natural calamities due to climate change, the use and adoption of index-based and parametric insurance products are given emphasis. 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 standards, and (iii) implementing evaluation and approval procedures for parametric and index-based insurance products. The Insurance Commission has to come up with guidelines for the approval of index-based and parametric insurance products. Standard and simplified contract provisions for these index-based products that may be offered to the low-income sector also have to be drawn out.
- (g) *Regulations for microinsurance mutual benefit associations.* In view of their organizational structure, mutual benefit associations (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 about 17 in 2012. With the recent revisions in the MBA chart of accounts and the accompanying changes in the annual statement,²⁷ 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. This is to ensure standardization of operations and practices for prudential purposes. Such rules should be able to address (i) protection of members, (ii) fit and proper rule for MBA governance, (iii) prudential requirements, and (iv) market conduct guidelines.

²⁶ The CDA has yet to establish its regulatory and supervisory procedures and mechanisms.

²⁷ 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.



Development of innovative microinsurance products addressing multiple risks. Low-income households are often faced with multiple risks. Most often, those belonging to the low-income sector are not able to distinguish one risk from another. For them, any unexpected and uncertain event is considered risk and should therefore be covered. As such, they are willing to pay for risk protection provided such amount covers all the risks that they are confronted with, and they deal with just one insurance entity. At present, however, life insurance products are provided by life insurance companies and MBAs, while nonlife products are provided by nonlife insurance companies. Since the low-income sector is often confronted with multiple risks, the value of an insurance product to clients can be improved if the product is able to address these risks. The value derived from increased and improved product coverage should be affordable and accessible to low-income sector. While Insurance Memorandum Circular 1–2010 recognizes and allows the bundling of life and nonlife products, products of this type have to be developed yet by the market.

Harnessing public–private sector partnerships in microinsurance. 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. Only about 28% of the 10.45 million informal economy workers are registered with the Philippine Health Insurance Corporation (PhilHealth).²⁸ Out-of-pocket expenses remain high. Meanwhile, crop insurance (mainly for rice and corn) is based on indemnity that requires use of adjusters before claims are paid to farmers. This usually results in delays in payment of claims to farmers, resulting in farmer dissatisfaction with crop insurance.

Given the progress of microinsurance, the increasing interest and willingness of private insurance providers to cater to the low-income market, and the issues confronting crop and health insurance, there is huge room for complementarity between the public and the private sector in these areas. For instance, Philhealth can provide the initial coverage, while private insurance providers can provide complementary coverage (those not covered by Philhealth). Likewise, the Philippine Crop Insurance Corporation might want partnership with private insurance providers both in the distribution and in the development of insurance products (e.g., index-based insurance products) for the agriculture sector. Various modalities may be identified for this.

Climate change and microinsurance. 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. While integrating adaptation to climate change processes into poverty reduction programs may mitigate this, there is still 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 microinsurance providers to give additional risk protection to their clients and constituents. Pilot-testing partnership between local government units, private insurance providers, and national agencies in the area of climate change and microinsurance is an endeavor worth pursuing given current realities on the occurrence of natural disasters and catastrophic risks.

²⁸ Data presented by PhilHealth during the 6th International Microinsurance Conference held in Manila, Philippines. 2012.



Educating clients on microinsurance. As mentioned earlier, insurance is a business of trust, and education is necessary to build such trust. Most of those in the low-income sector lack insurance information and understanding. They are not keen on paying premiums for an intangible product (insurance) with benefits that could be claimed only when contingency happens. They think the premium they paid is wasted when there is no contingent event. Often, insurance is not understood as risk protection mechanism. Moreover, a number of clients are not aware also of their rights and responsibilities as insured individuals. They need therefore to be informed on who the qualified insurers are, what a good insurance product is, and what the insurance benefits are. Information on where they can go to in case of disputes and complaints should also be made available to them.

There is a strong need to build an insurance culture among the poor. Educating the low-income market to overcome their bias against insurance 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 microinsurance 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 local government units may be tapped as partners in implementing financial literacy programs for clients at the local level.



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Assessment of Microinsurance as Emerging Microfinance Service for the Poor The Case of the Philippines

The Asian Development Bank (ADB) has been one of the few active partners for microfinance development in the Philippines. It has contributed to the growth of formal microfinance activities, including expanding the outreach of diversified formal financial services to poor clients at the most affordable costs. The risk of making poor clients worse off because of unexpected events gave rise to the formation of ADB's intervention focusing on microinsurance development. This report provides the initial sector assessment on emerging microinsurance activities and hopefully guidance on the way forward.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.7 billion people who live on less than \$2 a day, with 828 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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