



# FORMALIZING THE INFORMAL: MICROINSURANCE IN THE PHILIPPINES

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Supervisory Approaches for Increased Access to Insurance  
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# OVERVIEW

- 26.7 million Filipinos of 90 million are below the poverty line
- Only 2.9 million have some kind of risk protection
- Of those provided, 50% were covered by informal insurance schemes

# FORMAL INSURERS HESITANT TO GO DOWN

- High transactions costs
- Uncertainty
- Actuarial difficulties
- Regulatory environment



- Exclusion of a large segment of the population from insurance

# WHO THEN PROVIDES INSURANCE

Most are informal community-based entities  
with:

- Microfinance operations
- Unique distribution system in place
- Demand felt on a daily basis.
- Clients **FREQUENTLY** asking for insurance

The temptation is there,  
**but so are the risks** but they do not know!

# PROS AND CONS

## Advantages

- Existing distribution channels for credit and savings reach poor clients frequently at a relatively low cost
- Already focused on reducing transactions cost
- Potential for integration of insurance with other financial services
- Pre-established groups for group-based insurance

## Disadvantages

- Lack of insurance expertise
- Limited ability to finance the initial investment required to start up an insurance product
- Lack of managerial expertise in running the operations of an insurer
- Relatively small client base
- Limited geographic scope

# WITHOUT REGULATION

Microinsurance providers are prone to:

- Fraud
- Mismanagement
- Unsound financial practices, and
- Failures.

**They tend to create risks for the target clients and the very institution itself.**



# WHO SHOULD BE REGULATED?

## WITH REGULATION

- Contributions/premiums are regularly collected prior to the occurrence of a contingent event; and
- Guaranteed benefits are provided upon the occurrence of a contingent event.

## NO REGULATION

- Individuals voluntarily pledge and contribute a certain amount of money to a fund
- Benefits are not pre-determined but are contingent to the amounts collected.

# REGULATORY ENVIRONMENT SHOULD

- Ensure viability and sustainability of microinsurance providers
- Protect the premiums and contributions of the clients
- Ensure that insurance claims are delivered when due;
- Level the playing field; and
- Promote good governance, transparency and efficiency.



# PROVIDE SPACE FOR FORMALIZATION

- Define the roles of
  - Commercial insurance entities;
  - Mutuels and cooperatives;
  - Agents and Brokers; and
  - reinsurers
- Transform small informal member-based microinsurance providers to formal institutions
- Build the capacities of regulated insurance providers to provide microinsurance

# WHAT WAS DONE

- Additional Admitted Assets for microinsurance providers
- Lower entry-level capitalization requirements for mutuals and cooperatives
- Liberal licensing requirements for microinsurance agents and brokers to include microfinance institutions (rural banks, cooperatives and NGOs)
- Relaxed KYC requirements

# WHAT IS BEING DONE

- Formulation of the Performance Standards
- Revision of the Risk-Based Capital Framework considering microinsurance operations
- Development of Microinsurance Products
- Institutionalization of Financial Literacy for Microinsurance

# WHAT NEEDS TO BE DONE

- Establish data and information in rural areas for actuarial work
- Tap local government units as linkages with rural communities
- Comprehensive implementation of financial literacy on microinsurance to all stakeholders
- Use of wireless technology

“If microcredit provides the present financial needs of the poor, then microinsurance ensures their future financial needs”







***Magpaseguro para  
Protektado!***

**[microinsurancephil.blogspot.com](http://microinsurancephil.blogspot.com)**