

Case Study¹

The Philippine Approach to Inclusive Insurance Market Development

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¹ This case study is jointly developed by the Insurance Commission and the GIZ RFPI Asia program. This classroom material hopes to engage insurance supervisors and other stakeholders in different jurisdictions, especially the member countries of the MEFIN Network, into productive discussion to inspire microinsurance market development in their respective environments. MEFIN is a collegial body of insurance policy makers and regulators in Asia. The Insurance Commissioner of the Philippines serves as the Steering Committee chair of the Network. GIZ RFPI Asia serves as the Secretariat of the Network.

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Acronyms

BSP	Bangko Sentral ng Pilipinas (Central Bank)
CDA	Cooperative Development Authority
CL	Circular Letter
COC	Certificate of Cover
DOF-NCC	Department of Finance-National Credit Council
GIZ	German International Cooperation
IC	Insurance Commission (Philippines)
IMC	Insurance Memorandum Circular
MAF	Mutual Assistance Fund
MFIs	Microfinance Institutions
MI	Microinsurance
MI-MBA	Microinsurance Mutual Benefit Association
NGOs	Non-governmental Organizations
PAGASA	Geophysical and Astronomical Services Administration
RFPI Asia	Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia
RIA	Regulatory Impact Assessment
SEC	Securities and Exchange Commission
SMEs	Small and Medium Enterprises
TWG	Technical Working Group

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1. Introduction

The presentation of this case study is structured according to three regimes of microinsurance policy and regulatory reforms in the Philippines during a span of 9 years (2006-2015). The first regime refers to milestone regulations that happened beginning 2006, the second regime refers to regulations issued starting in 2010, and the third regime describes the most recent milestone regulations in 2015.

Under Chapters 3-5, the three regimes are discussed highlighting the situation during the period, the policy reform and processes behind the reform, the impact of regulations in three (3) dimensions (market development, institutional development, and client value) and the challenges that bridge one regime to another. Chapter 2 of the study offers a background of the Philippines and an overview of financial landscape including insurance and microinsurance. Chapter 6 offers conclusions and lessons and Chapter 7 provide the 'way forward'.

a) Philippine microinsurance environment before 2010

The microinsurance environment before 2010 was characterized by the following: lack of appreciation of the importance and benefits of insurance; insurance products mostly cater to the middle and upper income market; insurance products are unaffordable, not accessible and not tailor-fitted to the risk protection needs of the poor; and insurance contracts are long, complex and contain provisions that are too complicated to the poor.

The **market was driven by the microfinance sector**. From few large microfinance institutions (MFIs) in 1997 with less than half a million clients, the number grew to more than 1,400 MFIs in 2013 composed of rural banks, cooperatives and non-governmental organizations (NGOs) serving more than 10 Million clients. However, only about 2.9 Million Filipinos (out of 24.3 Million poor) have had some form of insurance; and about 50% of which were covered by **informal insurance schemes**.

The growing microfinance sector also meant growing scale of informal insurance activities. Many cooperatives chose to manage insurance in-house. Some large MFI NGOs already had growing and significant volume of Mutual Assistance Fund (MAF) being managed in-house. The financial regulators were already getting more concerned about covariant risk, financial stability of MFIs, and consumer protection.

The commercial **insurance industry was skeptical to go down market**. They simply do not believe there is sustainable business in microinsurance. Its business models do not fit to the characteristics of the informal and low income sectors which demand affordable premium, simple and flexible enrolment procedures, responsive products, efficient claims process, and easy access. These sectors are most vulnerable to illness, physical injury, accident or death, and natural calamities making it unattractive from an underwriting point of view.

While there were few partner-agent relationships already between insurers and MFIs offering mandatory credit-life insurance, this arrangement could not scale up because there was **no clear policy direction and regulations** from financial regulators. **Lack of coordination** between and among financial

regulators made it difficult to encourage innovations in the market and to manage financial stability and consumer protection issues. The rural banks are being regulated and supervised by Bangko Sentral ng Pilipinas (BSP) or the Central Bank, the cooperatives by the Cooperative Development Authority (CDA) and the NGOs by the Securities and Exchange Commission (SEC).

b) Evolution of a formal microinsurance market

In a span of 9 years the Philippines has already issued three regimes of microinsurance regulations. The first regulation was issued in 2006, the second in 2010, and the 3rd regime was in 2015. The market of microinsurance has evolved from a microfinance-driven market after 2006, to a **product value and claims efficiency-driven market** after 2010, to a **thematic insurance driven** such as natural catastrophe (natcat), health, agriculture and SMEs after 2014. Various circulars were issued by the Insurance Commission (IC) and other regulators which provided clearer guidelines such as on product definition, product marketing and distribution, reinsurance, market conduct, disclosure, redress mechanism, consumer education, and consumer protection.

There was **more cohesive coordination between regulators** during the 3 regimes of policy and regulatory reforms. Joint circulars between the regulators (IC for insurance, CDA for coops, and SEC for NGOs) had been issued. The BSP on the other hand had issued own circulars enjoining its regulated entities to comply with the microinsurance regulations. An inter-agency committee was created to monitor the implementation of a joint circular on formalization of informal insurance activities.

Market participation of the private insurance industry and the MFIs **has been increasing** over time. Many in-house insurance schemes had been formalized. In 2006, there were only 6 Microinsurance Mutual Benefit Associations (MI-MBAs) and 3 commercial companies in the market, mostly offering credit-life only. The participation grew in 2012 to 18 MI-MBAs and 18 commercial companies with a total of 199 approved microinsurance products. The number grew further in 2014 to 21 MI-MBAs and 42 commercial companies having 162 total approved microinsurance (MI) products. The total number of microinsurance coverage (lives and properties insured) was 187,000 in 2004, 19.9 Million in 2012 to 31.1 Million by end-2014.

The increasing number of MI-MBAs is evidence that **informal insurance are already formalizing**. Other path of formalization is through partner-agent arrangement which enroll clients of rural banks or NGOs to group insurance offered by commercial insurers. Another path is through coop assurance. Many primary coops have stopped and/or reduced doing in-house insurance activity; they enrolled their members to a coop-owned commercial insurance company (coop insurance society).

Public-private sector consultation was already the norm of engagement since the 2006 regulation. This consultation process became a **regular dialogue** platform not only among regulators and financial institutions but across other type of stakeholders during the 2010 and 2015 regimes. The dialogue builds trust; it enabled evidence-based and proportionate regulations; it created strong ownership to insure implementation and compliance.

Microinsurance in the Philippines is fully market-based. There are some regulatory incentives in place for microinsurance providers. The premiums are fully financed by the policy holders. The government, particularly the IC and the Department of Finance-National Credit Council (DOF-NCC), have been providing strong leadership, commitment and human resources in the promotion of the microinsurance market. The Financial Literacy Framework on Microinsurance has effectively engaged various stakeholders to participate in **microinsurance advocacy** (not marketing, not only client awareness) across nine stakeholder groups. The **multi stakeholder approach** to microinsurance advocacy had sown the seed for microinsurance to be embraced not only as a safe and sustainable insurance business but also as a public good where everyone has a space to contribute in order to increase the coverage of the low income and informal sectors to risk protection solutions.

The basics of microinsurance regulation are already in place in the Philippines. Microinsurance market had been tested, not only during good years but also in bad years. In 2013-2014, the microinsurance industry has responded well to the victims of super typhoon Haiyan. It was able to pay microinsurance claims of more than USD 12 Million to 111,000 beneficiaries. In 2014, microinsurance has contributed about 2% of the total premium production of the industry.

Private insurance entities, many of which had started microinsurance as a corporate social responsibility (CSR), now **want to be more massive in the market**. In the last 4 years, the government has initiated policy dialogues and policy reform aimed at encouraging the insurance industry to provide insurance for certain sectors such in health, agriculture, SMEs and natural catastrophes. Provision of insurance to these sectors, which is also dominated by government social protection programs, brings **new challenges**. It calls for new business models, a much broader cooperation among government entities, and complementation of public and private products and services.

c) Learning objective of the case study

The participants of the training are able to

- Appreciate the approaches in formulating proportionate policy and regulatory reforms, engaging stakeholders to genuine dialogues and coordination, and multi-stakeholder approach in implementing the regulations.
- In a group activity, discuss the application of the Philippine experience in their respective jurisdictions and identify new learnings and issues.

2. Background and Context

a) Basic demographic and economic data of the Philippines

The Philippines, a Southeast Asian country, is home to an estimated 104,280,890 people² (as of 1 January 2016) with diverse language, religion, and ethnicity³.

Located in the western Pacific Ocean, it is composed of around 7,500 islands grouped into three (3) geographical areas: Luzon, Visayas and Mindanao. Luzon being the most populated has 55.97% of the total population while Visayas and Mindanao have 20.30% and 23.70%⁴, respectively.

Due to its geographical location and characteristics, the Philippines is one of the most disaster-vulnerable countries in the world. The Inter-Agency Standing Committee Task Team for Preparedness and Resilience and the European Commission⁵ defines three (3) aspects of vulnerability: physical exposure and physical vulnerability, 2) the aspect of fragility of the socio-economic system and 3) the lack of coping capacity dimension. With consideration of all these aspects, the Philippines is considered a “VERY” high-risk country – its physical/geographic exposure being 7th highest risk in the world.

The Philippine’s 10-year moving average (2005-2015) annual disaster events shows that its country’s annual disaster events are 18, with 1817 deaths and economic loss of USD 1.6 Billion.

b) Financial sector overview

HSBC released a forecast of the world’s economy by 2050 and it was projected that the Philippines will be the 16th biggest economy of the world.

The reasons for this projection includes a stable democracy, educated, young, and English-speaking labor force, peace in the labor market and increasing Overseas Filipino Worker (OFW) remittances, low export dependence, one of the most improved stock market performances in the world and is considered to be one of the emerging markets by the International Monetary Fund⁶.

An emerging market is defined as an economy with low to middle per capita income, with apparent developments and reforms with increased local and foreign investments⁷.

² <http://countrymeters.info/en/Philippines>

³ <http://asianhistory.about.com/od/philippines/p/philippinesprof.htm>

⁴ <https://psa.gov.ph/content/philippines-population-expected-reach-100-million-filipinos-14-years>

⁵ <http://www.preventionweb.net/countries/phl/data/>

⁶ THE PHILIPPINE ECONOMY: REACHING THE TIPPING POINT, Dr. Bernardo M. Villegas, October 2012

⁷ Emerging Market Economy, Investopedia

The Philippines has an average growth forecast of 6.0% for 2016, one of the best in the ASEAN region (Figure 1).

Figure 1: Real GDP Growth of the Philippines

Annual Percentage Change					
Country	2014	2015	2016	2016-20(average)	2011-13(average)
Philippines	6.10%	5.90%	6%	5.70%	5.90%

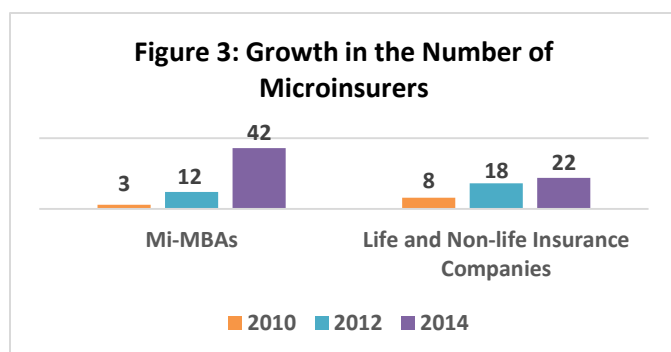
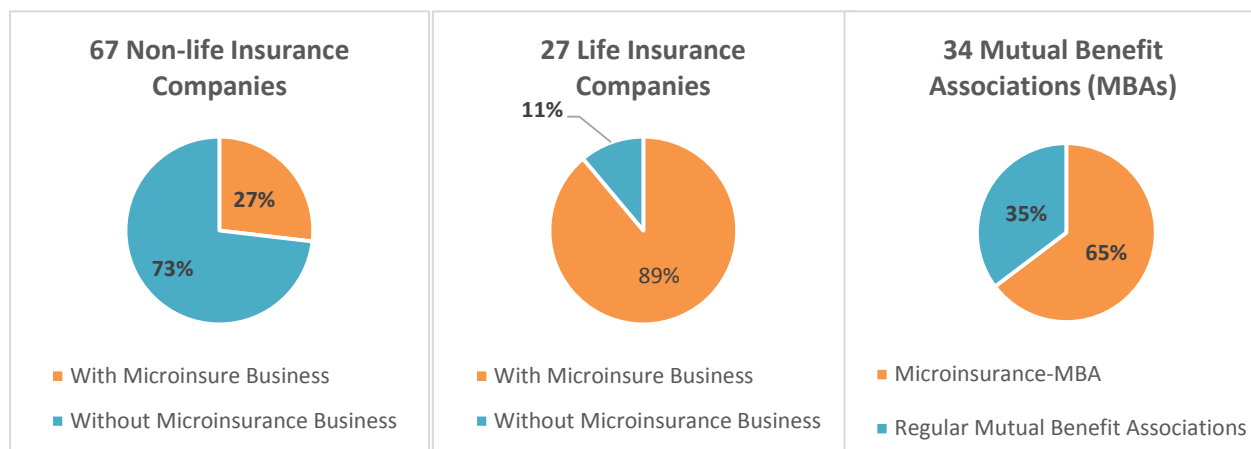
Reference: http://www.oecd.org/dev/asia-pacific/SAEO2016_Overview%20with%20cover%20light.pdf

Although the macroeconomic development of the Philippines proves to be significant, the poverty incident is still at its peak. The Annual Poverty Indicators Survey (APIS), in March 2015 report, shows that 25% or one (1) out of four (4) Filipinos is still poor. This is not a significant improvement on the poverty incidence in 2012 (25.2%)⁸.

c) The insurance and microinsurance landscape

Figure 2 shows there are 67 Non-Life companies (18 are involved in microinsurance business) and 27 Life insurance companies (24 of them are with microinsurance). Out of the 34 MBAs, 22 are Microinsurance-MBAs.

Figure 2: Microinsurance market participation of insurance entities

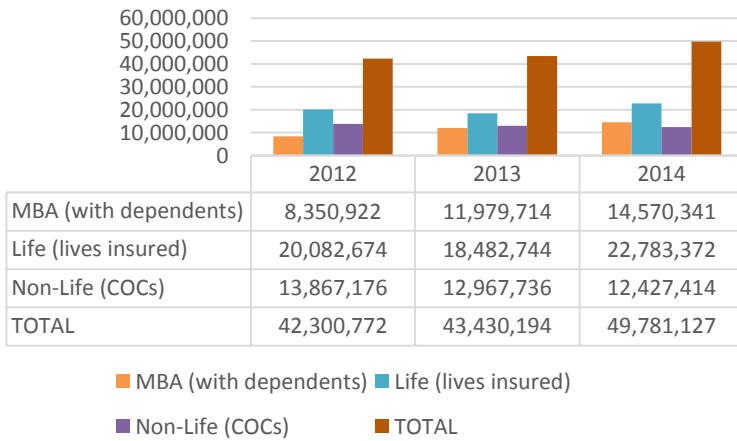


From three (3) commercial companies involved in the MI business in 2010, the number grew to 12 in 2012 and in 2014, the number rose to 42. (Figure 3)

The industry-wide insurance coverage (Figure 4) has been in increasing trend from 2012 to 2014 primarily because of the advent of MI. The growth from 2012 to 2013 was 3% while growth of 15% was noted from 2013 to 2014.

⁸ <http://www.bworldonline.com/content.php?section=Opinion&title>

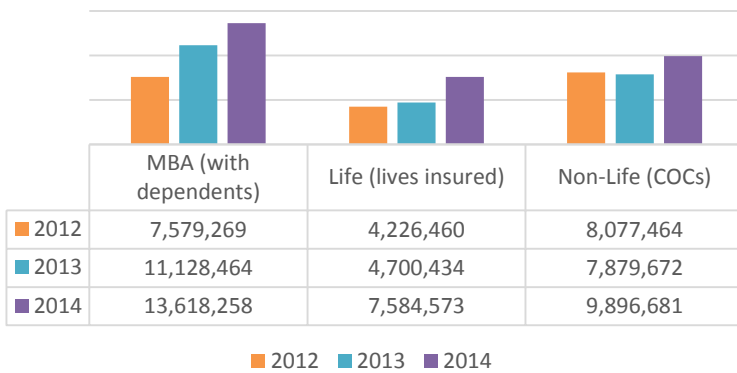
Figure 4: Insurance Coverage (industry-wide)



Microinsurance coverage (Figure 5) rose consistently - from 19.9M (2012) to 23.7M (2013) and 31.1M (2014) with 25% average annual growth. The 22 mutual benefit associations (MBAs) are the greatest contributors with a total of 13.6M individuals in 2014. MBA numbers include members and their dependents (husband/wife and children).

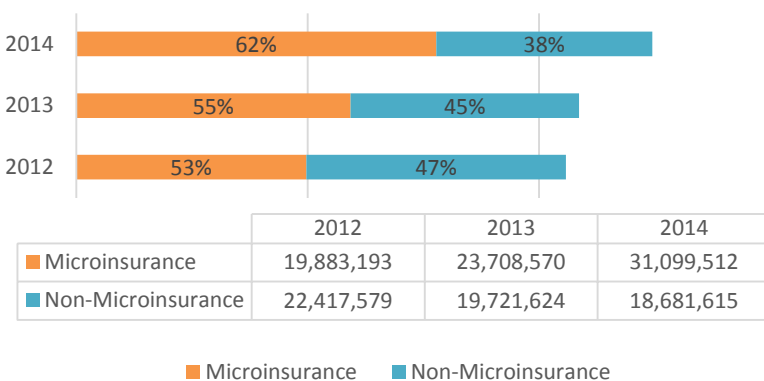
In 2012, the microinsurance coverage coming from regular insurance (53%) are higher than that of microinsurance (47%). In 2013, on the other hand, the coverage provided by microinsurance became higher at 55% than that of the regular insurance 45% and increase to 62% in 2014. (Figure 6)

Figure 5: Microinsurance Coverage

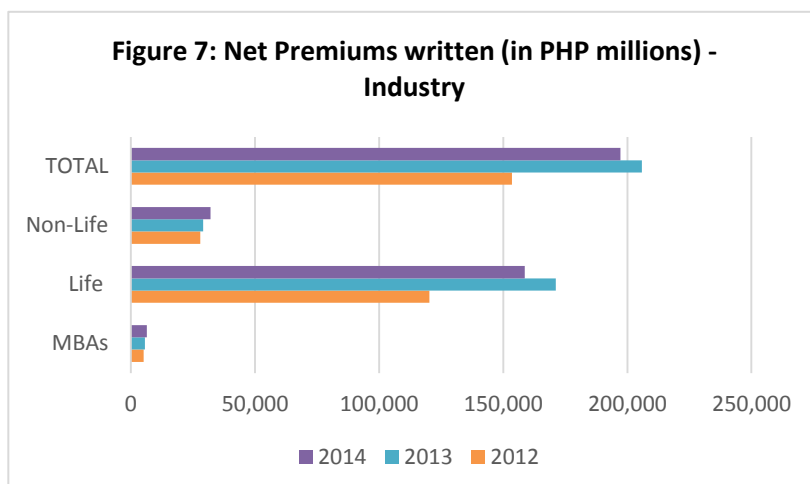


The Insurance Industry's contribution to GDP remains at 1.54% notwithstanding the significant increase in insurance coverage. Net premiums written (Figure 7) of the Philippine insurance increased by 34% in 2013 (PHP205,896M) from 2012 (PHP153,470M), but decreased by 4% in 2014 (PHP197,222M) from the 2013 figure. In 2014, 80.5% of the insurance premium written in 2013 is from the Life sector, 16.3% is from the Non-life sector while the remaining 3.2% comes from the MBAs.

Figure 6: Microinsurance and Non-microinsurance Coverage



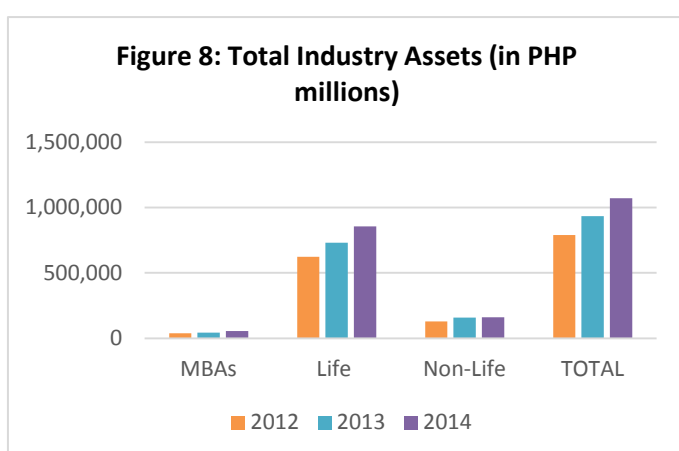
The contribution of microinsurance to Net Premium Written (2012-2014) averages around 2%.



The total industry asset (Figure 8) has been constantly increasing, on the other hand. Compared to the previous year, 2013 increased by 18% amounting to PHP932.7M while the 2014 number increased by 15% amounting to PHP1.01 Billion.

Around 79% of the total industry asset belongs to the life sector.

Increase in the industry assets can be attributed to the issuance of the Amended Insurance Code in 2013 which requires commercial insurance companies' paid-up capital to equal at least PHP1.3B. Existing insurance companies are required to increase its paid up capital every three (3) years until it reach the PHP1.3B level in 2022. By end of December 2016, all commercial insurance companies are expected to meet the minimum net worth requirement of PHP550M.



The microinsurance industry showed significant development from 2009 to 2014 as summarized in the table below (Figure 9):

Figure 9: Microinsurance industry overview (2010, 2012, 2014)

	2010	2012	2014
Coverage	3.1 million individuals	19.8 Million	31.1 million
Products	Mostly credit life	119 MI products (69 life, 50 non-life)	162 registered products (81 life 81 non-life)
MI-MBA licensed	6	18	22
Commercial Companies with Mi Business	Few commercial insurance companies with Microinsurance products	52 insurance companies	42 insurance companies (18 life and 24 non-life)
MI Agents	No MI agent category	125 (26 RBs, 96 individuals)	170 (48 RBs, 122 individuals)

3. Evolution of Microinsurance Development – the 1st regime, 2006

a) The situation

The government in the 1990s had issued different laws (Congress) and executive orders (President) aimed at cultivating a market-based approach in the provision of credit; encouraged greater role of the private sector; and relegating the role of government only to the provision of enabling policies.⁹ Over the years of implementation of financial market policy reforms, it has effectively **increased the number of private MFIs that are providing market-based microfinance** products.

Box1: The situation, 1st regime

- growing microfinance sector
- increasing number of informal insurance activities, which brought..
- increasing risks to financial stability of MFIs
- increasing risk to consumer protection

A lot of market innovations have happened. The diversity of microfinance products have improved significantly. Many large MFIs had exponentially increased its client outreach. The volume of Mutual Assistance Funds (MAFs), which are the nucleus of **informal insurance activities**, also increased. The MAF comes from regular contribution of MFI clients, and it pays clients or its families who suffered unfortunate events such as death, sickness and accidents. Many MAFs promised guaranteed amount of benefits. Some MFIs claimed to have improved their client retention and competitive advantage due to the benefits of MAF. However, the growing volume of MAFs which are not managed according to sound insurance principles has posed **risk to the core business of MFIs**, the credit and savings. It also had inherent **risk to consumer protection, risk to financial stability** of the MFIs and **reputation risk to the microfinance industry**.

b) The first policy reform

The presence of these risks have prompted a series of dialogues and consultations between the MFIs, the IC and other regulators which resulted to the issuance in October 2006 of Insurance Memorandum Circular (**IMC 9-2006 Microinsurance Regulation and Declaration of Policy Objectives**).

This is the first circular on microinsurance issued by the IC which defined microinsurance products according to quantitative limits of premium and benefits and the qualitative characteristics of the products and administration procedures. It said that microinsurance is *“the insurance business activity of providing specific insurance products that meet the needs of the disadvantaged for risk protection and relief against distress or misfortune”*. It sets the limit of daily premium of 10% of the daily minimum wage (around PHP350 in 2006) of a non-agricultural worker in Metro Manila

Box2: IMC 9-2006 defined microinsurance

- premium limit to 10% of daily wage (*revised in 2010*)
- benefit limit to 500x of daily wage
- policy contract that are easy to understand, simple requirements, flexible frequency of collecting premium
- created the tier of MI-MBA with Php5M minimum capital

⁹ The Philippine president in 1994 has issued Administrative Order 86 to rationalize directed credit programs in all sectors of the economy. The Order mandated all government agencies to stop its directed credit programs and allow the private sector to play a major role and the government only provides the enabling environment. In 1998 Congress issued the Agriculture Credit and Modernization Act (AFMA) which stopped subsidized credit in the agriculture sector. Executive Order (EO) 138 in 1999 terminated directed credit programs in the other sectors.

(resulting in PHP 35 or USD 0.70). It also sets the maximum insurance cover of not more than 500 times of the daily wage of a non-agricultural worker in Metro Manila (PHP 175,000 equivalent to USD 3,412.5 in 2006). Microinsurance contract provisions should be easily understood by the insured such as simple documentation requirements, and the manner and frequency of premium collections that are to coincide with the cash-flow or otherwise not onerous for the insured.

Responding directly to the growing informal insurance activities, the **IMC 9-2006 gave birth to Microinsurance Mutual Benefit Associations (MI-MBAs)**, a special tier of regulated insurance entities. The circular has set the guaranty fund or capital requirements of MBAs that are exclusively engaged in microinsurance business to at least Php5 million¹⁰ (USD 235,000). MBAs are authorized to underwrite life products only and should be offered only to its members.

In 2006 the IC has designated every January of the year as Microinsurance Month. Various organizations, whether individually or jointly, create awareness activities all throughout the month.

c) Regulatory impact, market response and challenges

IMC 9-2006 was meant to resolve the issue of informal insurance practices which harbor inherent risks to financial stability of the MFIs and their clients. If the impact of the first microinsurance regulation is measured according to 3 impact dimensions used (i.e. market development, institutional development and client value) in the Regulatory Impact Assessment (RIA) report published by the GIZ-RFPI Asia on December 2015¹¹, **the first regime of microinsurance regulation has effectively achieved market development impact.** It has increased the number of MI-MBAs from 6 with only 187,000 insured lives in 2006, to 18 with 7.6 M insured lives in 2012, and to 21 MI-MBAs with 13.6 M insured lives in 2014. Being life entities only, MBAs could not address the demand of its members for non-life insurance benefits.

Box3: Impact of IMC 9-2006

- Market development - increased participation of MI-MBAs: 6 with 187,000 insured lives in 2006, to 18 with 7.6 Million insured lives in 2012, and to 21 MI-MBAs with 13.6 Million insured lives in 2014.
- Institutional development - mainstreamed informal insurance (MAFs) into formal (MI-MBAs).
- Client value – good progress of claims ratio 25.7%, 24.1%, 27.5% in 2012-2014.

Market participation was still limited to the MI-MBA sector. Distribution of microinsurance was largely dependent with the MFIs, the mother companies of MI-MBAs. The commercial insurance companies and the agents and brokers were still observing the microinsurance market during that time. Some had already started MI as a CSR.

¹⁰ “This minimum amount shall be maintained at all times. Every year thereafter, all microinsurance MBA’s must increase their Guaranty Fund by an amount equivalent to five percent (5%) of their gross premium collections until the amount of the Guaranty Fund shall reach twelve and a half percent (12.5%) of the required capital for domestic life insurance companies.” (IMC 9-2006). Regular MBAs that existed before Dec 2006 had minimum capitalization of Php12.5 Million. New organized regular MBAs are required capital of Php125 Million (which is 25% of capitalization for new commercial companies).

¹¹ RIA is a first known initiative of a systematic and focused methodology to determine the impact of policy and regulatory reforms to market development. It provides insurance supervisors and other stakeholders, not only in the Philippines, with good lessons and recommendations. It uses 3 impact dimensions. The first dimension of **market development** includes the indicators on # of insurers and intermediaries engaged in microinsurance, # of products approved, and # of client outreach. The second dimension of **institutional development** measures indicators on diversity of business models, magnitude of formalization of informal insurance, quality of supporting services platform, capacity improvement of the regulator, and engagement of other stakeholders. The third dimension of **client value** measures loss ratio and renewal ratio. The full RIA report may be downloaded at the GIZ RFPI website www.inclusiveinsuranceasia.com

All MI-MBAs are the spins-off of MAFs thus the regulation was able to provide impact to institutional development by mainstreaming many informal activities. However, many, especially **the smaller MFIs** that could not afford the capital requirement and have low management capacity to organize MI-MBAs, **maintained their in-house insurance activities**.

In terms of client value, the MI-MBAs had average claims ratio of 25.7%, 24.1%, 27.5% in 2012-2014 which is considered a 'good progress' in the RIA report.

4. Evolution of Microinsurance Development – the 2nd regime, 2010

a) The situation

The significant growth in the business of MI-MBAs after the first regulation in 2006 was noticeable to the commercial insurance companies including to the 2 cooperative insurance societies (CISs). However, commercial companies which do not have institutional arrangements with grassroots network like the MFIs were skeptical to invest in microinsurance more than a CSR. There was no clear government policy direction that would encourage this investment and encourage participation from other players such as the strong network of conventional agents and brokers. Meanwhile, many MFIs especially the coops and small NGOs that do not see MI-MBA as a feasible solution have continued their informal insurance activities.

Box4: The situation, 2nd regime

- MI-MBAs demonstrated good and increasing business
- commercial companies are skeptical to participate
- no clear government policy that encourages other players to participate in the market
- no clear regulation for more options, other than MI-MBAs, to mainstream informal insurance activities

b) The second policy reform

The government wanted to open up the market of microinsurance beyond MI-MBAs. It was in 2009 that the financial regulators, the insurance industry, the financial intermediaries and other stakeholders together formed Technical Working Groups (TWGs) that conducted series of meetings and consultations to formulate a broader regulatory framework on microinsurance and the national strategies to implement the framework.

The second regime of policy reform came with four pillars: the Regulatory Framework for Microinsurance, the National Strategy for Microinsurance, the Roadmap to Financial Literacy on Microinsurance, and the Alternative Dispute Resolution for Microinsurance.

Box5: Pillars of 2nd regime of policy reform

- Pillar 1: Regulatory Framework for Microinsurance
- Pillar 2: National Strategy for Microinsurance
- Pillar 3: Roadmap to Financial Literacy on Microinsurance
- Pillar 4: Alternative Dispute Resolution for Microinsurance

The **Regulatory Framework for Microinsurance** (issued in January 2010) outlined the government's policy thrusts and direction for the establishment of a policy and regulatory environment that will encourage, enhance and facilitate the safe and sound provision of microinsurance products and services by the private sector. It identifies and promotes a system that will protect the rights and privileges of the insured.

The **National Strategy for Microinsurance** (issued in January 2010) defined the objective, the roles of the various stakeholders and the key strategies to be pursued in enhancing access to insurance of the poor. It provides directions towards mainstreaming informal insurance and insurance-like activities. It also provides strategies in the institutionalization of financial literacy.

In January 2010 during the culmination event of microinsurance month, the IC issued the 2nd regime of regulation, **IMC 01-2010 – Regulation for the Provision of Microinsurance Products and Services**. The circular drew its provisions from the regulatory framework and the national strategy on microinsurance.

IMC 01-2010 defined microinsurance products according to limits of premium cost (5% of daily wage) and amount of guaranteed benefits (500 times of daily wage).¹² Claims should be paid within 10 days. It sets the qualification of entities that can underwrite and sell microinsurance. It requires microinsurance policies to clearly identify the face amount, benefits, and terms of the insurance coverage and ensure that contract provisions can easily be understood by the insured; documentation requirements are simple; and the manner and frequency of premium collections coincides with the cash-flow and not onerous for the insured. The circular also defines the rules on product bundling, the evaluation of performance of providers through a set of performance standards, and the use of microinsurance logo in the policy contracts.

Box6: IMC 01-2010 defined microinsurance

- premium limit to 5% of daily wage (*further revised in amended Insurance Code*)
- benefit limit to 500x of daily wage (*revised in amended Insurance Code*)
- policy contract that are easy to understand, simple requirements, flexible frequency of collecting premium
- claims should be paid within 10 days
- expanded the list of entities that can underwrite microinsurance
- defined list of entities that can distribute microinsurance
- provided rules on product bundling
- emphasized the requirements of financial literacy and consumer protection
- defined the parameters for performance standards of microinsurance providers

To address the regulatory gaps in informal insurance, a joint **IC-CDA-SEC Memorandum Circular (MC) 01-2010 Defining Government’s Policies on Informal Insurance Activities**, and joint **IC-CDA-SEC Memorandum Circular (MC) 02-2010 Guidelines on Treatment of Funds Collected from Informal Insurance Activities** were issued. MC 01-2010 defines activities on insurance that need (and need not) be formalized. It requires all entities practicing informal insurance activities to formalize their schemes by seeking authority from the IC. It provides four options to formalize informal schemes. The MC 02-2010 requires that funds accumulated from contributions from informal insurance activities be used exclusively for the benefits of the contributors. It emphasized that excess moneys, after the formalization of the informal insurance schemes, shall be returned to or be used for the benefits of the contributors.

The **3 options to formalization** are 1) partner with commercial insurance companies that will provide group or individual coverage to its members, 2) have its members join a CIS or MI-MBA, and 3) organize themselves into an insurance entity such as commercial company, cooperative insurance society or MI-

Box7: MC 1-2010 provided options to formalization

- option 1: partner-agent arrangement
- option 2: join in CIS or MI-MBA
- option 3: set up an insurance entity

¹² In 2012, the limits were increased in the Insurance Code, as amended. The premium is up to 7.5% of daily wage, the benefits up to 1,000 times of the daily wage. All other provisions in IMC 01-2010 are still valid.

MBA. The two joint circulars have provided the guidelines for other routes to formalization which was a gap in the first regime of microinsurance regulations. It also allowed the MI-MBAs to use option 1 as a way to enroll its members to commercial companies offering non-life products.

Other milestone circulars during the second regime which addressed the gap on distribution were [Circular Letter \(CL\) 6-2011 on Guidelines for the Approval of Training Programs and Licensing of Microinsurance Agents](#) and [BSP Circular 683 on Marketing, Sale and Servicing of Microinsurance Products](#). CL 6-2011 which prescribed simplified procedures of agent licensing through accredited training entities has allowed organizations (not individuals) such as cooperatives, rural banks and NGOs to act as microinsurance agents therefore can earn commissions incentivizing to formalize insurance activities. Circular 683 on the other hand clearly set the rules of separation of banking business from microinsurance solicitation thereby addressing the issue of covariant risk.

To further provide incentives, the Department of Finance issued in 2012 [Department Order 15-2012](#) which reduces the minimum paid-up capital requirement of commercial companies to 50% for those having at least 50% of their production in microinsurance.

The [Roadmap to Financial Literacy on Microinsurance](#) (issued in January 2011) spells out the key strategies and measures to be adopted for institutionalizing financial literacy on microinsurance. Key principles, guidelines, and specific directions on how to promote and change behavior favorably for the adoption of Microinsurance among the low- income sector are provided for.

The main goal of the roadmap was to contribute to creating a strong insurance culture in the Philippines. To achieve this, stakeholders recognized the need to build the capacity, encrypt the knowledge and improve the skills to become proactive in the provision and promotion of micro-insurance. The roadmap went further than most similar programs, and consisted of four key components: 1) the formulation of key messages on the role of stakeholder groups to the development of the microinsurance market; 2) the development of training and communication materials to be used by various stakeholders, 3) training of microinsurance advocates, and 4) roadshows and public seminars in key cities across the country.

A series of roadshows were implemented by the DOF-NCC and IC with support from eight stakeholder groups (clients were not included in the team). The industry provided support mainly through the associations of insurers and intermediaries (PIRA and PLIA sent their staff as trainers). The roadshows were conducted in 16 regions across the country and reached out to a variety of partners such as the LGUs, insurers and intermediaries, local groups and clients. In each of the four-day training events, the first three days were framed as training for facilitators on microinsurance advocacy. The three-day TOMA “training of MI advocates” sessions were complemented by a final day which was an advocacy seminar open to the public. Local insurers and intermediaries sent their staff to the roadshows. The participants of the TOMA were tasked to roll out the dissemination of key messages from seminars and other events to their respective projects and offices. They also used the materials for their in-house training, as these materials have a free copyright. All in all, 660 staff members of authorities and the private sector were trained as “MI advocates”.

The **Alternative Dispute Resolution Framework for Microinsurance** (issued in October 2012) requires all insurance entities, agents and brokers who are engaged in microinsurance business to follow mediation-conciliation processes of claims dispute based on parameters of Least cost, Accessible, Practical, Effective and Timely or LAPET.

There are different guidelines for the implementation of Alternative Dispute Resolution for Microinsurance (ADReM) depending on the risk carrier; whether commercial insurance companies, Cooperative Insurance Societies (CIS) or MBA. In any event for all of them, the governing principles are confidentiality, competence, impartiality, consent and self-determination and the enforcement of any settlement agreement. Insurance companies, CIS and MBA must promote the use of mediation and conciliation amongst their policyholders in respect of disputes which arise from denied claims or those which are not fully paid within 10 working days. Commercial insurers, CIS and MBA must provide information on the outcome of cases referred to ADReM in their annual statements.

See Annex 1, list of government policies and regulatory issuances related to microinsurance.

c) Regulatory impact, market response and challenges

The 4 pillars of **policy reforms have effectively opened up the market** which used to be occupied by the MI-MBAs only after the first regime of regulation in 2006. Commercial insurance companies have already participated in the market not as CSR activity but by making microinsurance as a business line. In 2010 the biggest non-life commercial company repositioned one of its allied companies for the microinsurance market. In 2012 the biggest composite company and second biggest non-life insurer have set up a new company for microinsurance in partnership with the biggest MFI in the country. Meanwhile, the portfolio of MI-MBAs continued to grow. The overall microinsurance coverage (outreach) grew exponentially due to the participation of the commercial insurers.

The proportionate regulation on microinsurance agent licensing (CL 6-2011) gave much boost to the **mainstreaming of informal insurance**. The increasing number of MI-MBAs as a spin-off of the MAFs of MFIs (option 3 to formalization) and the increasing number of rural banks with partner-agent arrangement (option 1 to formalization) are solid indications to the extent of formalization. One MI-MBA (CARE) was organized under option 2 to formalization. CARE has over 37,000 members from smaller cooperatives.

However, there is no official record yet on the number MFIs that formalized their informal insurance activities (especially under option 2 where cooperatives transfer its insurance activities to licensed cooperative insurance societies). The two CISs though are claiming that more primary coops have joined the CIS. Thus, in 2015 an inter-agency committee was set up by the DOF-NCC, IC, BSP, CDA and SEC to systematically gather data on the extent of formalization.

Box8: Impact of 2nd regime policy reforms as of end-2014

- **Market development** – 46% (63 out of 138) insurance entities participated in the market; 170 MI agents licensed; 31.1Mn lives and properties insured in 2014 (56% contributed by commercial companies).
- **Institutional development** – excellent diversity of products; good progress in mainstreaming informal insurance; excellent broad-based approach to CB; MI institutionalized in the law.
- **Client value** – good progress in loss ratio in 2014: Life=50.2%, Non-life=156.4%, MI-MBAs=27.5%. 2014 was bad year due to T. Haiyan.

See annex 2 for details

Distribution model through the MFIs (rural banks, NGOs and coops) was still the dominant channels and this continued to grow after the CL 6-2011 provided clearer guidelines on training and licensing of microinsurance institutional agents. In the 2nd regime of regulation, innovative distribution channels have emerged such as through the pawnshops, merchants, and to a limited scale through mobile phones. One pawnshop network is claiming to be selling voluntary microinsurance of up to 2 Million certificates monthly through its 1,800 branches nationwide.

Consumer protection is built in the products which are required by IMC 01-2010 to be simple, easy to be understood, with no or less exclusions, and have clear disclosures. For bundled products, the regulator requires that only the lead insurer (having a contract with its partner insurer) should assume responsibility over the solicitation process and the servicing of claims. In case of claims dispute ADReM provides a platform for mediation that is least cost, accessible, practical, effective and timely.

While the microinsurance products are still largely term life, credit-life, personal accident, fire, hospital income benefit, among others, there is already some **product diversity** though not yet on big scale like for natcat, crop and health.

Based on the RIA study, the second regime of **microinsurance had achieved bigger impacts in 3 dimensions** (see Annex 2 – RIA rating of microinsurance impact assessment). It is noticeable under this regime the increasing participation of insurance companies in the market (63 entities out of 138 or 46 % at end 2014, from 52 in 2012) and the contribution of commercial companies to the total coverage of microinsurance (62%, 53% and 56% in 2012-2014). It also in this regime that microinsurance was institutionalized in the amended Insurance Code (2013), and a fully fledged Microinsurance Division inside IC was established in June 2015. In 2014, microinsurance has contributed about 2% to the total premium production of the industry.

Microinsurance market had been tested, not only during good years but also in bad years. In 2013-2014, the microinsurance industry has responded well to the victims of super typhoon Haiyan. According to a study report “Aiding the disaster recovery process” commissioned by GIZ RFPI Asia and the Microinsurance Network, microinsurance was able to pay claims of more than USD 12 Million to 111,000 beneficiaries. Typhoon Haiyan experience raised some questions about capacities of insurance entities to respond after disaster, reinsurance capacity, co-insurance agreements, and intermediation. During the microinsurance month culmination event in Jan 2015, the government and various stakeholders launched the theme “microinsurance challenging the climate, responding to change” and a manifesto was signed expressing the commitments of various public and private stakeholders to advance microinsurance as a mechanism to climate change adaptation. This sets the impetus for further policy and regulatory reform.

5. Evolution of Microinsurance Development – the 3rd regime, 2015

a) The situation

The value of microinsurance was further embedded to the core of the target market because of the role it played during the country's post-disasters resiliency efforts.

The increased perceived value by customers inspired market entry by more commercial insurance companies and intermediaries. But on the other side of the coin, stakeholders became more aware of business concerns that pressed the creation of the 3rd regime of the regulatory development.

Box 9: The situation, 3rd regime

- importance of disaster resiliency mechanism such as microinsurance became more apparent due to climate change
- clarity on the roles and responsibilities of intermediaries and distribution channels are necessitated
- reinsurance options are explored for microinsurance risks
- accountability on product bundling needed to be established
- desire of regulations and insurers to further penetrate the market

b) The third policy reform

In October 2015, the **Enhanced Microinsurance Regulatory Framework** through circular letter 2015-54 was published. This framework is considered an extension of the previous framework as circularized in 2010 with the purpose of filling the gaps (see box 9) that became more apparent as the industry matured.

The framework revolves around three (3) important components of the MI landscape: 1) intermediaries and distribution channels, 2) reinsurance and 3) product bundling.

Box 10: Circular letter 2015-54 Enhanced Microinsurance Regulatory Framework

- establishes involvement in the business process/value chain of regular agents, general agents and brokers
- provided guidelines on reinsurance of microinsurance risks
- extended the provisions of Product Bundling, highlighting accountability of lead insurer

The framework establishes the difference and similarities among regular agents, general agents and brokers in terms of their involvement in the business process/value chain, allowed activities and the services they can offer. It also reiterates that the primary obligation for claims payment belongs to the MI provider and that the prescribed period for claims settlement must be strictly enforced. Additionally, the framework conveys that **distribution channels utilized by MI providers and intermediaries (agents and brokers) need not be licensed by the IC.**

Another pertinent section of the enhanced framework is on the microinsurance risks that life and non-life companies, reinsurance companies and MBA may transfer and accept (**reinsurance**). Foreign-licensed insurance risk-bearing entities are also entitled to accept microinsurance risks but with more specific limitations set. To be more conservative, the Philippine's IC will also determine minimum retention of MI providers per individual risk.

Product bundling has been allowed since the previous framework and defined as, "integration of two (2) or more microinsurance products or services which are underwritten by two (2) or more insurance

providers under one policy contract”. The enhanced framework specifies that the components of the bundle should include allowable microinsurance products (two or more life, two or more non-life microinsurance products, a combination of life and non-life or a combination of microinsurance products). Accountability is also a major concern when it comes to bundling, thus, the policy contract/certificate of cover (COC) should contain the names of the insurers, and indicate the lead insurer who will be solely accountable for implementation and administration including handling of disputes.

To further improve the policy and regulatory environment, the stakeholders (government agencies, development partners and private insurers) continually create frameworks to fill the needs of the Filipino people. The **three (3) new frameworks are the: Micro Pre-Need Regulatory Framework, Agriculture Microinsurance Regulatory Framework, and Health Microinsurance Framework.**

During the same month (October 2015), the Insurance Commission has issued the Micro Pre-Need Regulatory Framework which is envisioned to foster, enrich and aid the prudent and practicable provisions of Micro Pre-Need products and services which includes education, life or memorial and pension.

The **Micro Pre-Need Regulatory Framework** aims to prepare Filipinos on certain future events that will require financial outflow – death, old age and children’s education. This denotes that the target market no longer have to go through desperate measures and overburden others to fulfill these regular phases of one’s life.

Similar to Microinsurance, Micro Pre—need products’ basic principles include accessibility, affordability of contract price; and simplicity of contracts. The amount of cash or installment payments and the maximum sum of guaranteed benefits or services should not exceed the limits set in the microinsurance framework.

Agriculture is one of the competitive advantages of the Philippines against other countries that is why Filipino farmers should be protected from dissolution or bankruptcy that may result from unmanaged risks.

The **Micro Agri Framework** issued through Circular Letter 2015-53 on October 15, 2015 aims to be a disaster resiliency mechanism, creating a doorway to financial stability and business resiliency even if the country is the most affected by climate change. The framework establishes a clear-cut policy on agriculture insurance to encourage providers to create to innovate and design products that will indemnify the farmer’s losses that may occur in different stages of their value chain. It covers both standard indemnity-based and parametric-based microinsurance covering a wide range of risks

Box 11: Development and Issuance of New Frameworks

- micro Pre-Need Regulatory Framework will address future events such as death, old age and children’s education
- agriculture Microinsurance Framework will provide risk protection to farmers and SMEs along the value chain
- health Microinsurance Framework will complement and supplement the Universal Health Care goal of social health insurance

concerning different stages of production processes. Insurance companies may use “parametric data” which a pre-determined trigger such as wind speed and volume of rainfall will determine the claimant’s right of indemnification, no longer necessitating measurement of actual loss.

Box 12: Multi-Stakeholders Engagement

- Technical Working Group (TWG) Meetings participated in by regulators, industry and development agencies
- private and public consultations in key regions of the country
- dialogue with public agencies involved in social protection, e-commerce, information/data, and public utilities

In the pipeline is the issuance of the **Health Microinsurance Framework** which envisions to supplement and complement the Government’s Universal Healthcare Program through development of viable and sustainable products from insurance providers. It focuses on fully or partially covering curative care benefits in in-patient and out-patient settings, and offering benefits such as cash assistance on transportation and medicine expenses.

These three (3) new frameworks are expected to further **broaden product scope of microinsurance** and deepen market reach without sacrificing business viability and sustainability, as well as to

continually **strengthen consumer protection**.

c) Approach and processes: Multi-stakeholders engagement

The involvement of the private sector has served an immeasurable element in nurturing a thriving landscape being enjoyed by the stakeholders today. To continually engage them, private sectors are actively involved in the development of regulatory frameworks through TWG meetings and industry consultations, not only to ensure that all interests and experiences are given due consideration, but most specially to obtain comprehensive perspectives.

Involvement of government agencies was also a significant formula for the smooth implementation of the regulatory frameworks. The MicroAgri Framework, for example, needs the Geophysical and Astronomical Services Administration (PAGASA) to share historical data for product design and real-time data for parametric-based agri-microinsurance. Beside their participation in the discussion during the TWG meetings, they also serve as Microinsurance advocates. Climate Change Commission (CCC), BSP, SEC and CDA are particularly requested to include MicroAgri in their advocacy and financial literacy activities.

The MicroHealth Framework, on the other hand, encourages the active involvement of the Department of Health (DOH) as it is the government agency mainly responsible of quality health care and maintains the health care facilities accreditation system.

d) Regulatory impact, market response, and challenges

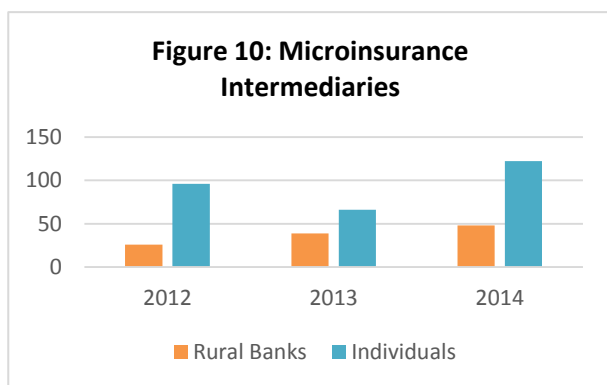
The Regulatory Impact Assessment (RIA) report by RFPI Asia that was published in November 2016 provided a succinct validation that the Philippines Microinsurance landscape reflects significant growth.

Box 13: Impact to Market Development

- microinsurance coverage is 535% increase from 2009 to 2014
- involvement of insurers in the microinsurance business is at 63 out of 138
- number of products approved are at 162 (2014) from 119 (2012)

The dramatic 535% increase in microinsurance coverage from 2009 (4.9M) to 2014 (31.1M) is the primary evidence of the positive inclination of the target market towards the products in the market. As shown in Figure 5, the growth for the last three years has also been notable with an average of 25%, from 19.9 Million (2012) to 25.2 Million (2013) and to 31.1 Million (2014) (See Figure 6).

The number of insurers engaged has also been growing. From few insurers in 2009 to 63 (out of 138) insurers in the end of 2014. As mentioned, more insurers show interest and continuous formalization initiatives are implemented by the IC. This will entail collaboration with the CDA. Additionally, a TWG aided by the ADB is currently in existence to further strengthen this initiative of the government.



The licensed intermediaries have also been rising over the years. The numbers of products approved have also increased over the years: from 119 MI products (69 life, 50 non-life) in 2012 to 162 registered products (81 life 81 non-life) in 2014. Further increase in licensed products is expected because of the issuance of the frameworks on Micro Pre-need, MicroAgri and MicroHealth.

Qualitative information was also gathered to rate the **Institutional Development** taking place in the Microinsurance industry. Important facets includes **diversity of business models, magnitude of formalization, supporting services and platforms, Insurance Commission capacitated and restructured in terms of Microinsurance and Other authorities and development agencies engaged.**

Diversity of business models of the country shows a wide range of distribution channels and intermediaries – distribution not only dependent on traditional channels but also innovative channels such as pawnshops, mobile and web platforms. Currently, a Technical Working Group (TWG) was organized, whose task, among others, is to develop a framework on Distribution Channels – this will stem exploration of possibilities that will enable microinsurance products to be virtually and practically close to those who need them.

Since the beginning of Microinsurance and with the advent of Joint Memorandum on **Formalization** in 2010, the following were noted as improvements: 22 MI-MBAs are licensed by the IC (some of them used to offer informal insurance scheme) and from zero formal rural bank agents to 48 licensed as agents (with 26 active in MI selling).

Another excellent indicator of institutional development is the **existence of supporting services and platforms**: One service provider (RIMANSI) helped to organize 17 MI-MBAs, different TWGs for different purposes are in existence and existence of institutions offering MI advocates program.

Box 14: Impact to Institutional Development

- the business models in existence are diverse
- formalization efforts are translated to increased number of insurers and intermediaries
- continual capacity development is in placed at the IC
- BSP, DOF-NCC, CDA, DOH and PAG-ASA are few of the many government agencies involved in the microinsurance advocacy programs and partners in the implementation of the frameworks

The **IC's capacity development** on Microinsurance has been continuing through a variety of means and approaches: seminars/trainings, MI Technical Committee, on-the- job training, MI exposure in TWGs and participation in advocacy work. Additionally, a dedicated Microinsurance Division was established in June 2015 to be the focal group in-charge of any Microinsurance-related concerns. The division is directly under the Commissioner of the IC.

As mentioned early on, the **involvement of different agencies** is a critical component for an effective framework implementation. Beside the participation of DOH and the Department of Agriculture (DA) in the implementation of newly issued frameworks, there are agencies that have been in participation from the beginning, examples are Central Bank of the Philippines/BSP, CDA and DOF-NCC. They collaborated with the IC on the monitoring of regulated entities such as rural banks, cooperatives and pawnshops.

Client value, which is measured through the loss ratios, show that claims paid over premium collected was rated 'good progress' by RIA report. Year 2014 is considered bad year after typhoon Haiyan happened and claims have shoot up.

The developments in 2015 brought new **challenges**, particularly in further coordination and operationalization amongst government agencies to ensure effectiveness of the frameworks. Although previous TWGs served as a venue for discussion, there should have a continuous alignment of objectives to ensure that individual approaches are complementary and non- counterproductive.

Another challenge is to tap the private sectors to collaborate on synergizing the advocacy programs already in place. One area is to tap media companies and telecommunication companies as they are the most significant influencers and may inspire a wide-range paradigm shift.

6. Conclusion

The microinsurance policy and regulatory reforms in the Philippines over the 3 regimes in the past 10 years have yielded positive impacts to market development, institutional development and client value. The reforms have demonstrated the strong leadership of the government and the active participation of the industry and other stakeholders in enhancing financial inclusion in the country. The reforms and its implementation took guidance from the Insurance Core Principles (ICPs) such as on proportionality in regulations (see Annex xx: Philippine examples on the application of proportionality in microinsurance regulations).

The Philippines could offer the following conclusions¹³ which might be relevant to other jurisdictions:

- a) Set clear signal and proportionate regulations to encourage private sector participation;
- b) Government and donors to enable the market, not spoon feed it. Be smart in subsidies;
- c) Patience in the processes of dialogues and consultations;

¹³ Source: A power point presentation "Promoting an Inclusive Insurance Market: Philippines' experience, 11th International Microinsurance Conference Casablanca, Morocco 3rd – 5th November 2015, Dante Oliver Portula Senior Finance Adviser GIZ RFPI Asia".

- d) Regulators and government programs to provide unified, consistent and complementary policy directions. Coordination is a key;
- e) Adapt inclusive approach to encourage industry participation. Prototype products are more sustainable to having constructive competition; and
- f) Regular monitoring, efficient reporting and knowledge management.

The multi-stakeholders' approach in market development does not only ensures evidence-based and strong ownership of results but also provides rich opportunity for capacity building. In the formulation of the policy and regulatory frameworks during TWG meetings, the participants were able to benefit from sharing of field experience from insurance providers and regulators. In many cases, experts' inputs, seminars and results of studies are embedded in the TWG process. Stakeholders' consultations in key regions of the country to disseminate the draft regulations have provided much more rich knowledge and experience to the members of the TWGs.

The results of market development and the processes behind the reforms continue to attract study visitors to learn from the Philippines. The members of the TWG (IC, DOF-NCC, industry, and GIZ) in many occasions get invited as resource persons in national and international conferences. The Philippines contribute significantly to peer-to-peer learning and knowledge management. It contributed to the developing the issues paper of IAIS.

GIZ RFPI Asia (and its former bilateral project in the Philippines, MIPSS) and the ADB-Japan Fund for Poverty Reduction (JFPR) have been consistent in providing technical assistance and in facilitating the microinsurance promotion in the Philippines since 2008. Equally important are the contribution from the regulators and the industry in terms of its expertise, time, efforts and in many cases covering own expenses of participating in meetings, trainings and other microinsurance events.

7. The way forward

In the next two years, the IC will continue to engage different stakeholders to work on the following:

- a) Strengthen the coordination among government agencies in the implementation of thematic insurance such as in MicroHealth, MicroAgri and climate risk.
- b) Develop models of institutional arrangement between public agencies and the private sector in complementation and supplementation of microinsurance and social insurance.
- c) Enhance the system of monitoring and reporting of microinsurance, including the progress of mainstreaming informal insurance activities.

8. References

Many of the information used in this case study took reference and recognition from the following sources:

- a) **A2ii**, Report of the 11th A2ii – IAIS Consultation Call, Financial Literacy and Consumer Education, 24 September 2015
- b) **Antonis Malagardis, Michael J. McCord, Dante O. Portula, Martina Wiedmaier-Pfister**, Regulatory Impact Assessment Microinsurance Philippines, Study Report GIZ RFPI Asia, Manila, November 2015, www.inclusiveinsuranceasia.com
- c) **Dante Portula, Reynaldo Vergara**, Case Study: The Philippine experience on Microinsurance Market Development, August 2013
- d) **Dante Portula**, Discussion Paper – Microinsurance as a Response to Natural Catastrophes, paper prepared as a main reference for the WAICA conference in 20-21 April 2015 in Accra, Ghana
- e) **IAIS**, ISSUES PAPER ON CONDUCT OF BUSINESS IN INCLUSIVE INSURANCE, November 2015
- f) **Insurance Commission**, Power point presentation “PHILIPPINE INITIATIVES ON MICROINSURANCE (Current Initiatives, Rules and Regulations)”, March 2015

Annex 1: List of government policies and regulatory issuances related to microinsurance

	Legal framework documents	Comments
2006	IMC C.No.2 - Increase in the Amount of Guaranty Fund of Mutual Benefit Associations (MBAs)	Established a minimum guaranty fund for existing and new mutual benefit associations and requires said funds to be deposited to the Insurance Commission, which "shall invest the moneys received in government securities or in interest-bearing deposits with any financially-sound commercial bank or trust entity for the account of the particular mutual benefit association constituting the Guaranty Fund."
	IMC C.No.6- Adoption of Risk-Based Capital Framework by the Life Insurance Industry	Establishes the Risk-Based Capital (RBC) Framework, which outlines "the required amounts of capital to be maintained by life insurance companies in relation to their investment and insurance risks [and] the Insurance Commission."
	IMC C.No.7 - Adoption of Risk-Based Capital Framework by the Non-life Insurance Industry	Establishes the RBC Framework outlined in IMC C. No. 6 for non-life insurance companies.
	IMC C.No.9 - Microinsurance Regulation and Declaration of Policy Objectives	Defines microinsurance as "the insurance business activity of providing specific insurance products that meet the needs of the disadvantaged for risk protection and relief against distress or misfortune." Defines Limit of premium cost (5% of the daily wage of a non-agricultural worker in Metro Manila) and amount of benefits (500 times of this daily wage). Gives qualitative definitions for "microinsurance product," "microinsurance mutual benefits associations (MBAs)," and defines the requirements for microinsurance MBA guaranty funds and specific policies. Charges the Insurance Commission with designing a regulatory framework for microinsurance MBAs.
	IMC C.No.11 - Adoption of Risk-Based Capital Framework by MBAs	Establishes the RBC Framework outlined in IMC C. No. 6 for MBAs
2007	IC C.No.15 - Guidelines for the Implementation of KYC and CDD Requirements	Refines the KYC and CDD requirements by "rationalizing the KYC rules and simplifying the CDD requirements in cases of low risk customers and transactions which are not susceptible to money laundering."
2010	BSP C. No. 683 - Marketing, Sale and Servicing of Microinsurance Products	States that "a rural, cooperative or thrift bank, including its authorized branch/es, extension office/s and other banking offices (OBOs), can present, market and sell microinsurance products as defined under the Insurance Commission's Memorandum Circular (IMC) No. 1-2010 ¹ , provided that the microinsurance product is duly approved by the Insurance Commission."
	IMC C. No. 1 - Regulations for the Provision of Microinsurance Products and Services	Outlines the different regulations for microinsurance vs. regular insurance, including capitalization requirements. <ul style="list-style-type: none"> • Defines Microinsurance products according to a) the quantitative features as of IMC 9-2006; b) Features of insurance policies – affordable, simple and easy to understand. • Sets the qualification of entities that can underwrite and sell Microinsurance. • Requires microinsurance policies to clearly identify the face amount, benefits, and terms of the insurance coverage and ensure that contract provisions can be easily understood by the insured; documentation requirements are simple; and the manner and frequency of premium collections coincides with the cash-flow and not onerous for the insured • Defines rules on product bundling.
	BSP C. No. 694 - Amendment of Regulations on the Establishment of Other Banking Offices and Notes to Microfinance	Allows a microfinance-oriented Other Banking office (OBO) to "present, market, sell and service microinsurance products in accordance with existing regulations", subject to conditions (applied to and authorized by BSP to perform, proper accounting and reporting)
	Joint Memorandum Circular (JMC) - IC-CDA-SEC C.No.1 - Defining Government's Policy on Informal Insurance Activities	The government allows informal insurance activities but is stricter on the way people profit from them.
	IC-CDA-SEC Circular No.2 - Guidelines on the Treatment of Funds Collected from Informal Insurance Activities	Defines how the IC will regulate the funds coming from the informal insurance activities defined in IC-CDA-SEC C.No.1.
2011	BSP M.No.15 - Reminder on the Proper Offering of Microinsurance Services	A reminder stating that "only authorized Banks are allowed to engage in the presentation, marketing, sale and servicing of microinsurance products."
	BSP M.No.27 - Guidance for the Implementation of Circular 683 on Marketing, Sale and Servicing of Microinsurance Products	Gives a three-part definition of who can be considered a "microfinance client."
	IC C.No.5 - Performance Standards for Microinsurance	Issues standards for the provision of microinsurance by banks. For example, banks must "enter into an agreement with a duly authorized insurance provider which has the responsibility of ensuring that each of the microinsurance product to be marketed or sold by the bank, is approved by the IC."
	IC C.No.6 - Guidelines for the Approval of Training Programs and Licensing of Microinsurance Agents	Outlines the training requirements for the licensing of microinsurance agents, including "a 3-day course provided by competent resource speakers," passing "a test covering basic concepts," and the submission of a list to the IC by the president of the insurance company and trainer listing who has been licensed.
	IC-C No. 39-2011 – Re-Approval of Microinsurance Products	Lists the standards for getting microinsurance products re-approved by the IC.
	JMC 1 – 2011 Extending the Deadline for Termination of Informal Insurance and Insurance-Like Activities	Lists the length of time that shall be given in order to formalize informal insurance and insurance-like activities
2012	CL 7 – 2012 Filing of 2011 Annual Statement	Prescribes the submission of the 2011 Annual Statement by all licensed insurance entities using revised form, which includes the required exhibits and schedules regarding information on the entities' microinsurance operations
	CL 5 – 2012 Preparation of the 2011 Annual Statement	Provides the additional assets that may be considered admitted for insurance providers that have microinsurance operations
	DO 12-2012	Provides a reduced minimum paid-up capital for those with at least 50 % of production in microinsurance. This provision is also valid for intermediaries, i.e. the brokers.
2013	CL 15-2013 – Procedures for Accreditation of Mediators-Conciliators in ADReM for MI	Sets out the qualifications of mediators-conciliators, training, responsibilities and their code of conduct.
	CL 16 -2013 Guidelines for the Implementation of ADReM for MI by Commercial Companies (<ul style="list-style-type: none"> • Describes the principles and procedures of claims-related dispute resolution mechanisms at least cost, accessible, practical, effective and timely. • Emphasizes consumer protection and also protection of the insurance industry against illegitimate claims.
	CL 17 – 2013 Guidelines for the Implementation of Alternative Dispute Resolution Mechanisms for Microinsurance (ADReM) Involving Cooperative Insurance Societies	<ul style="list-style-type: none"> • Describes the principles and procedures of claims-related dispute resolution mechanisms at least cost, accessible, practical, effective and timely. • Emphasizes consumer protection and also protection of the insurance industry against illegitimate claims.
	CL 18 – 2013 Guidelines for the Implementation of Alternative Dispute Resolution Mechanisms for Microinsurance (ADReM) Involving Commercial Insurance Companies	<ul style="list-style-type: none"> • Describes the principles and procedures of claims-related dispute resolution mechanisms at least cost, accessible, practical, effective and timely. • Emphasizes consumer protection and also protection of the insurance industry against illegitimate claims.
	Insurance Code 2013 http://www.insurance.gov.ph/hm/./.%5C_@min%5Cupload%5Creports%5CRA10607.pdf?page=3&zoom=auto_0,515	In terms of microinsurance: <ul style="list-style-type: none"> • Increases the monetary definition of microinsurance (amount of policy cover and premium) by increasing the 5 % to 7.5 %

Source: Regulatory Impact Assessment Microinsurance Philippines, Study Report, GIZ RFPI Asia, November 2015

Annex 2: RIA rating of microinsurance impact assessment

	Indicator	Value (end of Dec)	Ranking
Market development (quantitative data)	Insurers engaged	63 out of 138 = 46 % at end 2014 (52 in 2012) 21 MBAs, 18 Life companies, 24 non-life companies	Excellent
	Intermediaries licensed	170 (2014), 105 (2013), 125 (2012)	Good progress
	Products approved	162 products as of 2014 (from 119 in 2012). 81 life and 81 non-life products.	Good progress
	Microinsurance coverage (lives and properties insured)	19.9Mn (2012), 25.2Mn (2013), 31.1Mn (2014) 25% average annual growth. Life companies 34%, MBAs 34%, Non-life companies 11%. Microinsurance represents 62% of industry coverage and contributes 1.9% of industry premium in 2014 (1.7% in 2013).	Excellent
	Lives covered (MI-MBAs and Life companies)	11.8Mn (2012), 17.3Mn (2013), 21.2 Mn (2014) or 59%, 67% and 68% of MI coverage, respectively.	Good progress
	Non-life insurers' production	8.1Mn (2012), 7.9Mn (2013), 9.9 Mn (2014) or 41%, 33% and 32% of MI coverage, respectively.	Good progress
Institutional development (qualitative data)	Diversity of business models	MI Framework intentionality in recognizing the need for a range of business models	Excellent
	Magnitude of formalization	Major coordinated efforts towards formalization	Good progress
	Supporting services and platforms	Relatively more strong support structures than other jurisdictions	Excellent
	Insurance Commission capacitated and restructured in terms of MI	Broad-based approach to capacity building and adjusting structures Microinsurance institutionalized in the amended Insurance Code (2013) A fully fledged Microinsurance Division inside IC established	Excellent
	Other authorities and development agencies engaged	Engagement of other authorities and agencies	Good progress
Client value (quantitative data)	Claims / loss ratio in microinsurance (2012-2014)	Life = 45.2%, 21.2%, 50.2% Non-life = 18.3%, 33.1%, 156.4% MI-MBAs = 25.7%, 24.1%, 27.5%	Good progress

Source: Regulatory Impact Assessment Microinsurance Philippines, Study Report, GIZ RFPI Asia, November 2015

Annex 3: Philippine examples on the application of proportionality in microinsurance regulations

Regulatory measures	Relevant ICP	Proportionality application to microinsurance
IMC 1-2010 – Regulation for the Provision of Microinsurance Products and Services	ICPs 9, 18-20	<ul style="list-style-type: none"> Sets the qualification of entities that can underwrite and sell microinsurance. Simple terms and conditions of insurance contract; few documentation requirements. Use of MI Performance Standards in reporting.
BSP Circular 683-2010 – Marketing, Sale and Servicing of MI Products		<ul style="list-style-type: none"> Sets out guidelines for banks that want to sell Microinsurance as agents. Differentiates banking functions from insurance activities.
IMC 9-2006 – Microinsurance Regulation and Declaration of Policy Objectives	ICPs 4, 9, 17	<ul style="list-style-type: none"> Created MI MBAs with only Php5M minimum guarantee fund and at least 5,000 members. Operations shall be monitored and evaluated based on set performance standards (SEGURO).
DOF Department Order 15-2012		<ul style="list-style-type: none"> Minimum paid-up capital requirement is reduced to 50 % for insurance entities having at least 50 % of their production in microinsurance.
Circular Letter 6-2011 –Guidelines for the Approval of Training Programs and Licensing of Microinsurance Agents	ICPs 4, 18-20	<ul style="list-style-type: none"> Outlines the procedures of training and licensing MI agents. Requires the minimum disclosures such “A Licensed Microinsurance Agent” signage visible in the premises of the institution.
Circular Letter 16 to 18-2013 – Guidelines for the Implementation of ADReM for MI by Commercial Companies, Cooperatives and MBAs	ICPs 1, 9, 18-20	<ul style="list-style-type: none"> Describes the principles and procedures of claims-related dispute resolution mechanisms at least cost, accessible, practical, effective and timely. Emphasizes consumer protection and also protection of the insurance industry against illegitimate claims.
Circular Letter 5-2011 – Performance Standards for Microinsurance	ICP 9	<ul style="list-style-type: none"> Provides a system of reporting forms and ratios based on set performance standards SEGURO.
Philippine Insurance Code, as amended 2013	ICPs 1-3, 25	<ul style="list-style-type: none"> Institutionalized MI (Section 187) as financial products for the low income and informal sectors.

ICPs outline					
A. Supervisory System	B. The Supervised Entity	C. On-going Supervision	D. Prudential Requirements	E. Markets and Consumers	F. AML/CFT
1-Objectives, powers and responsibilities of the supervisor	4-Licensing	9-Supervisory Review and Reporting	13-Reinsurance and Other Forms of Risk Transfer	18-Intermediaries	22-Anti-Money Laundering and Combating the Financing of Terrorism
2-Supervisor	5-Suitability of Persons	10-Preventive and Corrective Measures	14-Valuation	19-Conduct of business	
3-Information Exchange and Confidentiality Requirements	6-Changes in Control and Portfolio Transfers	11-Enforcement	15-Investment	20-Public Disclosure	
25-Supervisory Cooperation and Coordination	7-Corporate Governance	12-Winding-up and Exit from the Market	16-Enterprise Risk Management for Solvency Purposes	21-Countering Fraud in Insurance	
26-Cross-border Cooperation and Coordination on Crisis Management	8-Risk Management and Internal Controls	23-Group-wide Supervision	17-Capital Adequacy		
		24-Macroprudential Surveillance and Insurance Supervision			

Source: Report on Seminar-Workshop on Application of Insurance Core Principles (ICPs) for Inclusive Insurance Philippines, GIZ RFPI Asia, Sept 2015